FINANCIAL ACCOUNTING

المحاسبة المالية

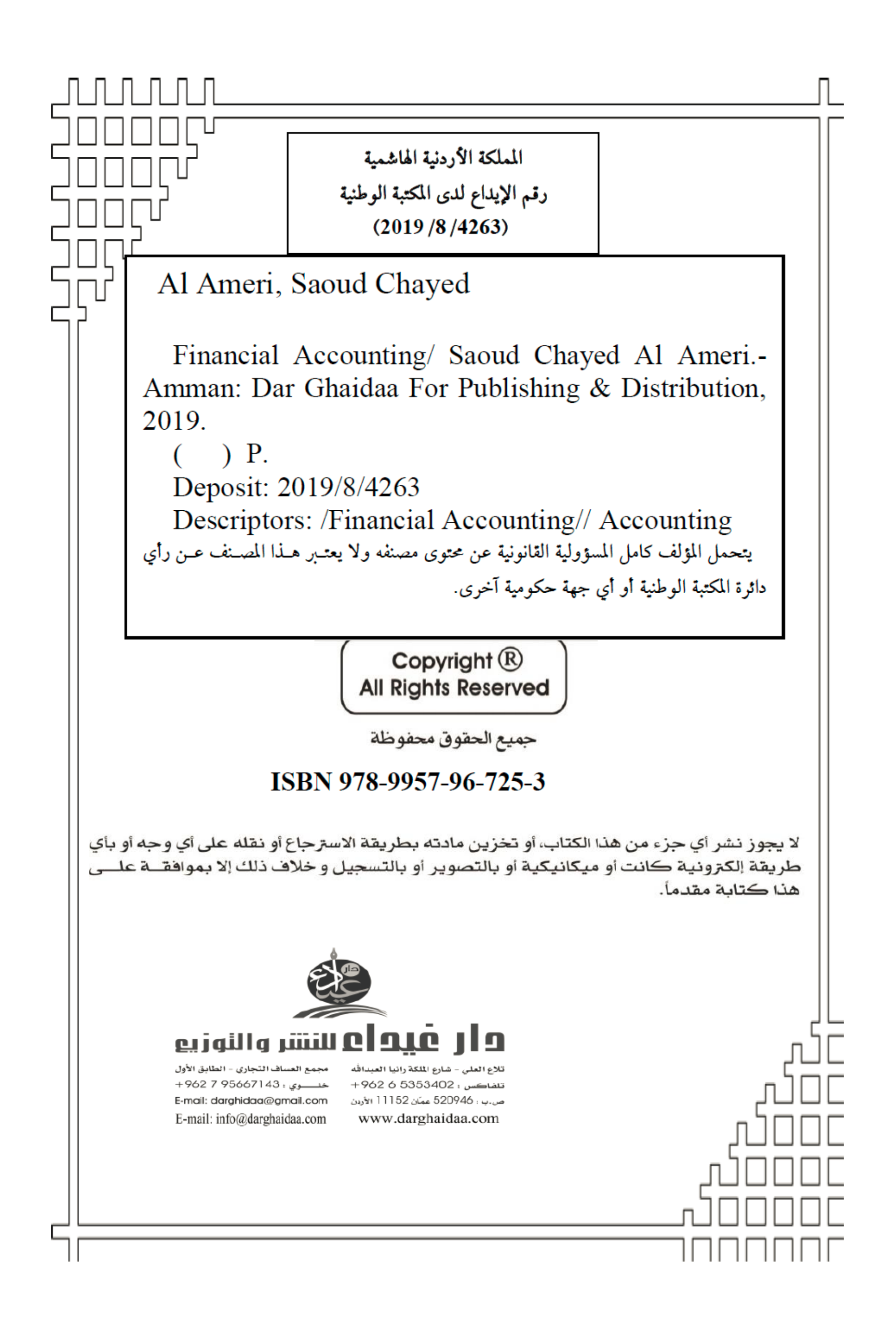
Prof. Dr. Saoud CH. MSHKOOR

الأستاذ الدكتور: سعود جايد مشكور العامري



FINANCIAL ACCOUNTING

المحاسبة المالية



المملكة الأردنية الهاشمية
رقم الإيداع لدى المكتبة الوطنية
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الطبعة الأولى

2020م- 1441هـ



Contents

Introduction

Accounting is considered language of business specialist in measurement, commutating, reporting and providing of various quantitative information to the interested parties, such as managements, governments, investors and creditors about a specific entity to taking rational economic decisions.

The objectives of this book are to covers a curriculum for the students of accounting departments, and to learn the students on accounting through the main seven subjects:

Firstly, theoretical framework of accounting, this subject contains three matters an introduction to accounting, accounting assumptions, principles and constraints, then the accounting as an information system.

Firstly, the accounting procedures that discuss five subjects: double entry accounting system, accounting cycle, subsidiary books, discounts and allowances and returns, at last the errors.

Third, the accounting for fixed assets and depreciation: accounting for fixed assets, Non– Fixed assets, accounting for depreciation. Define depreciation. Name different methods providing depreciation. Accounting treatment for deprecation.

Fourth, the current assets: accounting for inventory, accounts receivable, commercial papers, securities investments, cash and bank reconciliation.

Fifth, owner's equity and current liabilities: Define owner's equity, capital, and creditors .Give examples on paid up capital in different entities. Show the accounting treatment and how capital and creditors classified in the balance sheet.

Sixth, financial statements: Prepare manufacturing account, trading account, profit and loss account, and income statement; balance sheet, prepare worksheet and cash flow statement.

Finally, accounting adjustments: expenditures adjustments, revenues adjustments, adjustments in financial statements, capital expenditures and adjustments, management expenditures, accrued expenses, and expenses paid in advance, revenues not paid yet and revenues received in advance.

Thus, the contents of this book contains the following main accounting subjects:

- Theoretical Framework of Accounting
- Accounting Procedures
- Accounting for Fixed Assets and Depreciation

■ Current Assets

■ Owner's Equity and Current Liabilities

■ Financial Statements

■ Accounting Adjustments

This text book is also prepared to help the students and readers to understand the financial accounting in English language more easily for the following several reasons:

- Using a simple and understanding language in this book.
- Existence a translation in Arabic language for some accounting terms.
- Attaching of an appendix, at the end of the book, which contains the accounting, financial and economic terms and their definitions.
- More exercises are solved in the each chapter.
- Questions and exercises at the end of each chapter and the answers of these questions to help the readers on understanding.

I hope that all the students, professional, and users will easily be find out their interests in this book, because it involves many subjects in principles accounting supported by practical exercises.

The Author

2020

CHAPTER

(1)

THEORETICAL FRAMEWORK OF ACCOUNTING

1- Introduction to Accounting

- **Forms of Business Firms**
- **Definition of Accounting**
- **Objectives of Accounting**
- **Kinds of Accounting**
- **Functions of Accounting**
- **Fields of Accounting Activities**

2- Accounting Assumptions, Principles, and Constraints (Concepts)

- **Fundamental Assumptions**
- **Accounting Principles**
- **Accounting Constraints**

3- Accounting as an Information System (A.I.S)

- **Accounting information and its user's**
- **Users of accounting information**
- **Qualitative Characteristics of Accounting**
- **Elements of Accounting**
- **Questions?**

CHAPTER

(1)

THEORETICAL FRAMEWORK

OF ACCOUNTING

الاطار النظري للمحاسبة

Financial accounting is the field (حقـل) of accountancy (علـم المحاسـبة) concerned with the preparation of financial statements for decision makers, such as managements, employees, stockholders, suppliers, banks, government agencies, owners, and other outside parties. Financial accountancy is used to prepare accounting information for people outside the organization.

In short, Financial Accounting is the process of summarizing financial data taken from an organization's accounting records and publishing in the form of annual reports for the benefit of people outside the organization. Financial accountancy is governed by both local and international accounting standards.

1- INTRODUCTION TO ACCOUNTING

مدخل إلى المحاسبة

Business activity is the process of transforming inputs into outputs by addition value. An accounting is a system that collects, records, stores, and processes data to produce information for decision makers into several firms. The type of a business depends on size of activity which is performed by the business .Thus the accounting must be carefully addressed because of the tax, managerial, legal and liability impacts that business formation has.

A- Forms of Business Firms أشكال منشات الأعمال

From Commercial and Legal angles, a business may be organized in many ways. There are a number of different forms of Business firms. However, the common forms of organizing are: Sole proprietorship, Partnership, Limited Company and corporation.

(1) Sole proprietorship **المنشاة الفردية**

The business is carried on by single individual. All the profits of the business earn go to him. The sole proprietors' liability is unlimited, and he is personally liable for paying of the debts.

(2) A partnership **شركة التضامن**

This firm comprises a minimum of two and a maximum of (20) persons trading together as one firm and sharing in the profits. In addition to sharing the profits, each partner shares unlimited Liability for all the debts and obligations of the firm and is responsible for the Liabilities in the firm of his fellow partners as well as his own.

(3) A limited company الشركة المحدودة

A limited company is a Legal entity and is treated by the law like a natural person; it must be run according to the rules set out by the company law. Among other provisions, it is laid down that financial statement must be prepared and audited every year and be made available for inspection on a public register.

(4) Corporation شركة مساهمة

The Corporation structure consists of the shareholders and the board of directors. The shareholders a point the board of directors to manage the company. The capital of a company is divided into units of ownership called shares .The shares of a public company are freely transferable from one individual to another.

B- Definition of Accounting تعريف المحاسبة

The Americans Accounting Association (AAA جمعية المحاسبين الأمريكية) defines accounting as follows:

"The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information!

This definition can present the following notes:

(1) The definition suggests that accounting is about providing information to its readers. Accounting information is economic information, it relates to the financial or economic activities of the business or organization.

(2) Accounting information needs to be identified and measured. This is done by way of a "set of accounts", based on a system of accounting known as double-entry book-keeping (مسك القيـد المـزدوج). The accounting system identifies and records "accounting transactions"(معاملات محاسبية).

(3) The "measurement" of accounting information involves making judgments about the value of assets owned by a business or liabilities owed (دين عـلى المنـشاة) by a business. It is also about accurately measuring how much profit or loss has been made by a business in a particular period.

(4) The definition identifies the need for accounting information to be communicated. The way in which this communication is achieved may vary. There are several forms of accounting communication (e.g. annual report and accounts, management accounting reports) each of which serve a slightly different purpose. Accounting information is communicated by using "financial statements".

➢ What is the purpose of financial statements?

There are two main purposes of financial statements:

(1) To report on the financial position of an entity (e.g. a business, an organization).

(2) To show how the entity has performed (financially) over a particularly period of time (an "accounting period").

The most common measurement of "performance"(أداء) is profit. It is important to understand that financial statements can be historical or relate to the future.

C- Objectives of accounting **أهداف المحاسبة**

Accounting is the process of recording, summarizing, analyzing, and interpreting financial (money related) activities to permit individuals and organizations to make informed judgments and decisions. By law all businesses must keep accounting records. Decisions are based on accounting information for profit and non-profit companies' alike.

◆ Objectives of organizations **أهداف المنظمات**

Most organizations are externally accountable (عرضة للمسؤولية الخارجية) in some way for their actions and activities. They will produce reports on their activities that will reflect their objectives and the people to whom they are accountable.

The table below provides examples of different types of organizations and how accountability is linked to their differing organizational objectives:

Table (1-1) : organizations and their objectives

No.	Organizations (المنظمات)	Objectives (الأهداف)	Accountable to (examples)
1	Private or Public companies شركات عامة أو خاصة	➢ Making of profit. ➢ Creation of wealth.	-Shareholders -Other stakeholders (e.g. employees, customers, suppliers)
2	Charities منظمات خيرية	➢ Achievement of charitable aims. ➢ Maximize spending on activities.	-Charity commissioners - Donors
3	Local Authorities سلطات محلية	➢ Provision of local services. ➢ Optimal allocation of spending budget.	-Local electorate -Government departments
4	Public services خدمات عامة (e.g. transport, health)	➢ Provision of public service (often required by law). ➢ High quality and reliability of services.	-Government ministers - Consumers
5	Quasi-governmental agencies وكالات شبه حكومية	➢ Regulation or instigation of some public action. ➢ Coordination of public sector investments.	-Government ministers - Consumers

All of the above organizations have significant roles to play in society and have multiple stockholders to whom they are accountable. All require systems of financial management to enable them to produce accounting information.

◆ Purposes of accounting أغراض المحاسبة

How accounting information helps businesses to be accountable. As it's showed in the definition, accounting is essentially an "information process" that serves several purposes:

(1) Providing a record of assets owned, amounts owed to others and monies invested.

(2) Providing reports showing the financial position of an organization and the profitability of its operations.

(3) Helps management actually manage the organization.

(4) Provides a way of measuring an organization’s effectiveness.

(5) Helps stockholders monitor an organizations activities and performance

(6) Enables potential investors or funders to evaluate an organization and make decisions.

D- Kinds of Accounting Information **أنواع المعلومات المحاسبة**

There are two broad types of accounting information:

(1) **Financial Accounts** (حسابات مالية) : aimed more at external users of accounting information .

(2) **Management Accounts** (حسابات إدارية): aimed more at internal users of accounting information.

Although there is a difference in the type of information presented in financial and management accounts, the underlying objective is the same to satisfy the information needs of the user. These needs can be described in terms of the following overall information objectives:

Table (1-2): Descriptions of Terms

No	Terms	Descriptions
1	Collection تحصيل	Collection in money terms of information relating to transactions that have resulted from business operations.
2	Recording and Classifying تسجيل وتصنيف	Recording and classifying data into a permanent and logical form. This is usually referred to as "Book-keeping".
3	Summarizing تلخيص	Summarizing data to produce statements and reports that will be useful to the various users of accounting information, both external and internal
4	Interpreting and Communicating تفسير وإيصال	Interpreting and communicating the performance of the business to the management and its owners.
5	Forecasting and Planning تنبوء وتخطيط	Forecasting and planning for future operation of the business by providing management with evaluations of the viability of proposed operations. The key forecasting and planning tool is the "Budget"موازنة

The process by which accounting information is collected, reported, interpreted and auctioned (يباع بالمزاد) is called "Financial Management". Taking a commercial business as the most common organizational structure, the key objectives of financial management would be to:

(1) Create wealth for the business.

(2) Generate cash.

(3) Provide an adequate return on investment bearing in mind the risks that the business is taking and the resources invested.

In preparing accounting information, care should be taken to ensure that the information presents an accurate and true view of the business performance and position.

For financial accounts, the regulation or control of what kind of information is prepared and presented goes much further. The international companies are required to comply with a wide range of Accounting Standards which define the way in which business transactions are disclosed and reported. These are applied by businesses through their Accounting Policies.

◆ **The main financial accounting statements**

The purpose of financial accounting statements is mainly to show the financial position of a business at a particular point in time and to show how that business has performed over a specific period.

The three main financial accounting statements that help achieve this aim are:

(1) The profit and loss account for the reporting period.

(2) A balance sheet for the business at the end of the reporting period.

(3) A cash flow statement for the reporting period.

A balance sheet shows at a particular point in time what resources are owned by a business "**assets**" and what it owes to other parties "**liabilities**". It also shows how much has been invested in the business and what the sources of that investment finance were.

◆ **What is the profit?**

Profit is the amount by which sales revenue (also known as "income") exceeds "expenses" (or "costs") for the period being measured.

◆ **How companies report to their shareholders?**

Companies usually publish annual financial statements for their shareholders.

The financial statements you are going to study consist of:

- **The profit and loss (P&L) account** (حساب الأرباح والخسائر): an analysis of revenue and expenses of a business for the year just ended.
- **The balance sheet** (ميزانية): a statement showing the assets, liabilities and capital of a business.
- **The cash flow statement** (قائمة التدفق النقدي) **relating to the year just ended**: a statement showing how cash is generated and how it has been spent by the business.

The contents of each of these financial statements will be presented further in Chapter of financial statements in this book.

E- Functions of accounting وظائف المحاسبة

It is generally accepted that accounting should serve the following functions:

(1) **Recording (تسجيل):** accounting systems supply a means of recording and classifying data so as to enable the production of summarized financial statements relating to the entity's results and current state of affairs.

(2) **Measuring (قياس):** accounting tries to assist in the measurement of the economic results of the entity's activities, usually with a view to sharing out the results among the various interested parties: for example, government (taxes), employees (wages), shareholders (dividends).

(3) **Stewardship (وظيفة الوكالة)**: accounting provides a record of how the funds entrusted to managers have been used by them, and to what ends.

(4) **Monitoring, planning and control (توجيه ، تخطيط ، رقابة)**: accounting should provide sufficient information on the results of past activities to enable management to monitor the results, and take action if necessary, and to formulate plans for the future.

(5) **Information for decisions (بيانات لاتخاذ القرارات)**: accounting should assist investors, for example in deciding how to allocate their limited resources.

(6) **Communication (اتصال):** accounting should communicate information to both internal and external users. (Financial statements are the main tools used to achieve this function for external users.)

F- Fields of Accounting Activities حقول أنشطة المحاسبة

Accountants perform many diverse services and are engaged in various types of employment. There are three major fields of accounting activity: private accounting, public accounting, and governmental accounting. Since each of these may comprise many aspects of accounting activity, it is possible to give only a broad description for each type of accounting employment.

◆ Private accounting المحاسبة الخاصة

Private accounting is employed and used by the manufacturers, wholesalers, retailers, and service firms. Depending on the complexity and

size of the business, the private accountant's duties may vary from routine reporting to the design and installation of electronic accounting systems. However, the major objective of the private accountant usually is to assist management in planning and controlling the firm's operations.

◆ Public accounting المحاسبة العامة

The field of public accounting is composed of firms that render independent, expert reports on financial statements of business enterprises. Public accounting firms also perform a wide variety of accounting and managerial services, acting as consultants to their clients.

◆ Governmental Accountingالمحاسبة الحكومية

A subdivision of accounting practice relating primarily to accounting for federal, state, and local governmental units agencies. The services performed by this field of accounting parallel those of private and public accounting and many cover the entire spectrum (مجـال) of financial and managerial accounting. Management provides accounting information to help managers make decisions to manage the business.

Table (1-3): Theory framework of accounting

الإطار النظري للمحاسبة

<table>
<tr><td colspan="3">(1) Objectives
Providing of informationتقديم المعلومات</td></tr>
<tr><td colspan="3">1. Useful to investment and credit decisions.
2. Useful to estimation of future cash flows.
3. Useful to determine of firm’s resources and its changes.</td></tr>
<tr><td>(2) Items العناصر</td><td colspan="2">(3) Characteristics of information خصائص المعلومات</td></tr>
<tr><td>■ Assets
■ Liabilities
■ Owner’s equity
■ Owner’s investments
■ Owner’s dividends
■ Compressive income.
■ Revenues
■ Expenses
■ Gains</td><td colspan="2">1. Fundamental characteristics
a. relevance
b. reliability
■ objectivity
■ neutrality
2. Secondary characteristics
a. comparability
b. consistency</td></tr>
<tr><td>(4) Assumptionsالفروض</td><td>(5) Principlesالمبادئ</td><td>(6) Constraintsالمحددات</td></tr>
<tr><td>1. Accounting entity
2. Going – concern
3. Measurement unit
4. Periodicity
5. Double Entry</td><td>1. Historical cost
2. Revenue recognition
3. Matching
4. Objectivity
5. Full disclosure</td><td>1. Consistency
2. Cost and benefit
3. Materiality
4. Industry practices
5. Conservatism</td></tr>
</table>

3-ACCOUNTING ASSUMPTIONS, PRINCIPLES AND CONSTRAINTS

الفروض والمبادئ والمحددات المحاسبية

The theoretical foundation developed over the years by such organizations as the (AICPA)(معهد المحاسبين القانونيين الأمريكي) and the Americans Accounting Association (AAA) includes fundamental underlying assumptions which allow for certain basic premises(مقدمات أساسية) as well as the Generally Accepted Accounting Principles (GAAP) المبادئ المحاسبية المقبولة قبولا عاما which provide a framework for professional judgment.

The theoretical structure of financial reporting is described graphically in following Figure.

Figure (1-1)

Theoretical structure

Accounting Objectives

Fundamental Accounting Underlying Assumptions

Terminology Definitions

Generally Accepted Accounting Principles

- Historical Cost
- Revenue Recognition
- Matching
- Objectivity
- Full Disclosure

- Consistency
- Materiality
- Conservatism
- Cost & Benefit

Accounting Procedures

Financial Reports

The process of recording, classifying and summarizing the day-to-day activities of the business firm requires considerable judgment on the accountant's part. Since so much reliance is placed on financial reports, it is imperative (إلزامي، ضروري) that the accounting system be designed to generate information that will meet the needs of users, both internal (the board of directors, corporation officers, employee groups) and external (investors and creditors).

A- Fundamental Assumptions **الفروض الأساسية**

Some of the broad theoretical concepts on which the GAAP are based include:

(1) Separate entity **استقلالية الوحدة**

Revenues, costs and expenses apply to the business entity rather than its owners. The accounting system is concerned primarily with three types of entities: the proprietorship, the partnership and the corporation.

(2) Going-concern **الاستمرارية**

The accountant assumes, in preparing the records or financial statements of any business, that the firm will continue in existence for the foreseeable future (المستقبل المنظور).

(3) Money Measuring Unit **وحدة القياس النقدي**

It is assumed that the Dinar, or any currency in the world, is the best measuring unit of business transactions. Thus, only those transactions terms of money are measured and recorded.

(4) Time Period **الفترة الزمنية**

So that accounting data can serve the decision-making process, it is necessary that it be provided on a systematic basis of time intervals. Comparison of reported results from one period to the next is useful in determining performance patterns.

(5) Double-entry system **نظام القيد المزدوج**

The standard accounting model for accumulating data in a business entity consists of the double-entry system based on the fundamental accounting equation. As the name implies, the entry made for each transaction is composed of two parts: one or more debits and one or more credits.

B- Accounting Principles المبادئ المحاسبية

(1) Historical Cost الكلفة التاريخية

The properties and assets acquired by an enterprise, as well as the expenses incurred by it, are generally recorded at cost (the cash or equivalent exchanged).

(2) Revenue Recognition تحقق الإيراد

Revenues are realized when the market value of outputs can be determined and supported and the transaction is essentially complete.

Example: The timing of revenue recognition varies according to the type of transaction. In the case of merchandise sales, revenues are realized at the point of sales, when goods are delivered and title has passed.

(3) Matching المقابلة

In determining net income, it is necessary to match related costs and expenses to revenues for the reporting period. The cost of the product sold and all expenses incurred in generating the sale should be matched against the respective revenues.

(4) Objectivity الموضوعية

The financial statements generated by a business entity's books must be supported by evidence (دليل إثبات). When business documents showing the details of a completed transaction do not or cannot exist, estimates based on informed judgments which can be verified are included.

Example: Company Babel purchased an electronic typewriter for IQD 400000. Based upon their experience with similar machines and the experience of the typewriter vendor, it was decided to use eight years as the estimated life in the depreciation calculation. The depreciation expense would therefore amount to IQD 50000 each year.

(5) Full Disclosure الإفصاح التام

For accurate interpretation, it is required that accounting reports include financial statements and accompanying notes which call attention to events and circumstances which may have a significant effect on potential future earnings and/or a company's position.

C- Accounting Constraints المحددات المحاسبية

(1) Consistency الثبات أو الاتساق

Any change in accounting procedures usually has some effect on current or past income. Since it is important that income data be interpreted and compared over time, the consistency constraint requires that any deviation in procedures from those of the preceding year be clearly defined as a footnote to the financial statements or possible retroactive restatement.

(2) Materiality الأهمية النسبية

The convention of Materiality refers to the relative importance of an item or event in a financial statement and its influence on the decisions of the users of financial statements.

Example: Blue Company has reported net income in excess of IQD 200000 for many years, established a rule that all shop supplies and small tools purchased, which cost under IQD 100000, shall be treated as an expense regardless of when used. This is acceptable accounting the constraint of materiality.

(3) Conservatism التحفظ

Current theory advocates (مؤيدو) that in situations where data are unclear or conflicting, the accountant's judgment should be in the direction of understatement (تصريح اقل من الحقيقة) rather than overstatement (شيء مبالغ فيه).

(4) Industry Practices الممارسات في قطاع الأعمال المتخصصة

In some cases, the accountant can do his accounting transaction without depending on general acceptance principles. For example an evaluation of the financial investments in banks on basis of market value, another example the banks do not full disclosure in details for their activities.

(5) Economic Substance over Legal Form تغليب الجوهر فوق الشكل القانوني

Some of financial transactions have an economic effect more than its legal form. For example, sometime in sells transactions, in spite of the seller received the worth of his goods sold but he still have the legal form of this goods sold in this case it will not appear in his stock , because the accountants should preferred the economic effect over the legal form .

4- ACCOUNTING AS AN INFORMATION SYSTEM

المحاسبة نظام للمعلومات

An '''accounting information system''' ('''AIS''') is the system of records a business keeps to maintain its [[**accounting system**]]**.** This includes the purchases, sales, and other financial processes of the business. The purpose of (AIS) is to accumulate data and provide decision makers (investors, creditors, and managers) with information.

A- Accounting information and its user's **البيانات المحاسبية ومستخدميها**

Different users require different accounting information for decision making. The primary concern of **shareholders** (including potential investors, their advisers and financial analysts) is whether their investments will provide the required returns in the form of dividends and capital growth. Therefore, they will seek (يقصد، ينشد) information in order to assess the present and future ability of the company to pay dividends and whether the value of their investments will rise in the future. But conventional financial statements are prepared under the cost and money measurement concepts.

B- Users of accounting information **مستخدمو البيانات المحاسبية**

Interested parties are also called accounting information users. There are two broad categories of accounting information users:

- Internal users المستخدمون الداخليون
- External users المستخدمون الخارجيون

(1) Internal users are parties inside the reporting entity (company) who are interested in the accounting information.

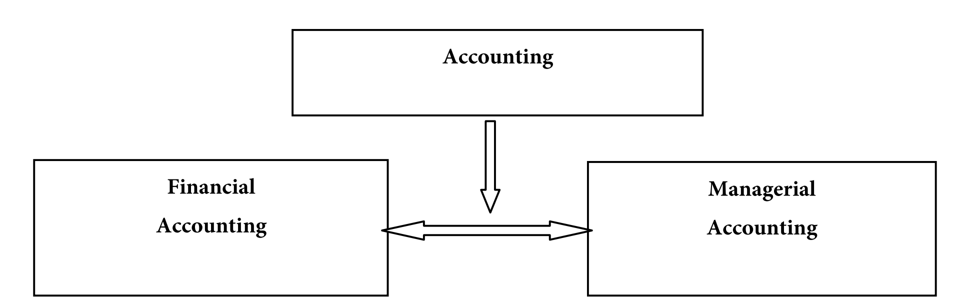
A company's higher and middle management (الإدارة العليا والوسطى) uses accounting information to run business. Employees utilize accounting information to determine a company's profitability and profit sharing.

(2) External users are parties outside the reporting entity (company) who are interested in the accounting information.

Investors (owners) use accounting information to make buy, sell or keep decisions related to shares, bonds, etc. Creditors (suppliers, banks) utilize accounting information to make lending decisions. Taxing authorities need accounting information to determine a company's tax liabilities. Customers may need accounting information to decide which products and from which company to buy.

Figure (1-2)

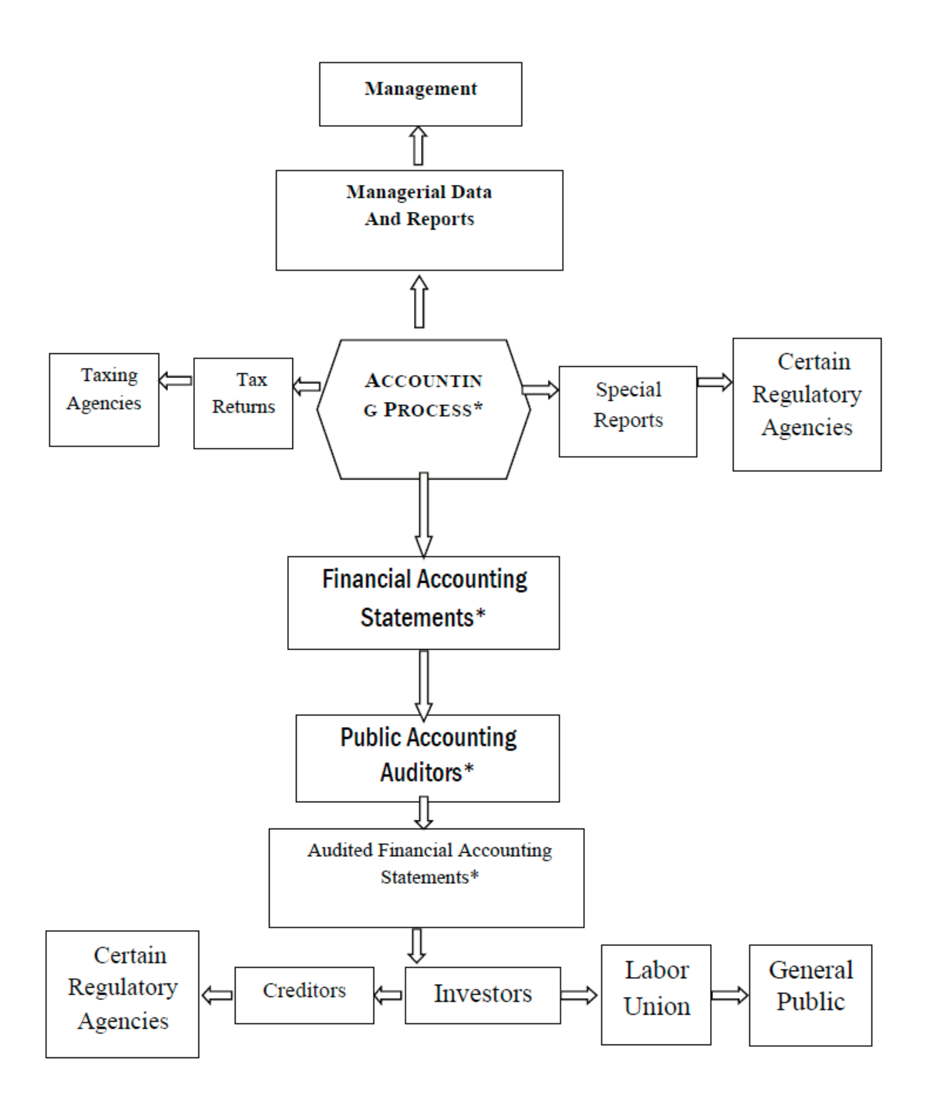
Types of accounting



- **Financial accounting** (المحاسبة المالية) provides information that is designed to satisfy the needs of external users. Such reporting is usually done in the form of financial statements.
- **Managerial accounting** (المحاسبة الإدارية) provides information that is useful in running a company by internal users. Such reporting is usually accomplished through custom designed reports.

Figure (1-3)

Typical Flows of Accounting Information



***Reporting area governed by generally accepted accounting.**

C- Qualitative Characteristics of Accounting

الخصائص النوعية للمحاسبة

The characteristics of relevance and reliability are the two primary qualities that make the accounting information useful for decision making. If either is missing completely from a piece of information, the information will not be useful. Other qualities include comparability, consistency, and cost-benefit relationship.

(1) Relevance **الملائمة**

To be relevant to investors, creditors, and others for investment, credit, and similar decisions, accounting information must be capable of making a difference in a decision. Relevant information should have predictive value, feedback value, and timeliness. Relevant information helps decision makers make predictions about future; it has **"Predictive Value"** (القيمة التنبؤية).

(2) Reliability **المعولية(الموثوقية)**

Reliability is the quality of information that permits users to depend on it with confidence (ثقة). This means it is verifiable, has faithful representation, and is reasonably free of errors and bias.

(3) Neutrality **الحيادية**

Neutrality means that, in formulating or implementing standards, the primary concern should be the relevance and reliability of the information and the information cannot be selected to favor one set of decision makers over another.

(4) Comparability **القابلية للمقارنة**

Accounting information about an enterprise is extremely useful if it can be compared to accounting information about other enterprises. Comparability results when different enterprises apply the same accounting treatment to similar events.

(5) Consistency **الثبات أو الاتساق**

Consistency means conformity from period to period with unchanging policies and procedures. Conformity can be achieved be applying the same accounting treatment to similar events from period to period.

(6) Cost & Benefit الكلفة والمنفعة

Most decision makers assume that information is a cost free commodity (سلعي), while providers know it is not. The costs of providing the information should be weighed against the benefits of using the information. Cost-benefit decisions are extremely difficult because both costs and benefits are often subjective and difficult or impossible to measure reliably.

D - Elements of accounting عناصر المحاسبة

◆ Assets الأصول (الموجودات)

Assets are items with money value that are owned by a business. Some examples are: cash, accounts receivable (selling goods or services on credit), equipment (office, store, delivery, etc.), and supplies (office, store, delivery, etc.).

◆ **Fixed Assets الأصول الثابتة**

Sometimes called long-term assets, long-lived assets, or plant and equipment. Fixed Assets include land, building, fixtures, and equipment..

◆ Current Assets الأصول المتداولة

Current assets constitute cash, items expected to be realized in cash, sold or consumed during operating cycle of the business or one year, whichever is longer.

FASB defined current assets as follows: Current assets are economic benefits owned by a firm which are reasonably expected to be converted into cash or used up during the entity's normal operating cycle or one year, whichever is longer.

Current assets are defined "Cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business". Items are included under current assets on the basis of whether they are expected to be realized within one year or within the normal operating cycle of the enterprise, whichever is the longer.

The classification of current assets, one typically finds the following:

- **Inventories المخزون**

Inventories include those items of tangible property that (1) are held for sale in the ordinary course of business, (2) are in process of production for such sale. The cost of inventory includes all expenditures that were

incurred directly or indirectly to bring an item to its existing condition and location.

- **Accounts Receivables** **الحسابات المدينة**

Receivables encompass (يـشمل) monetary claims against debtors of the firm. The term accounts receivable is commonly used to refer to receivables from trade customers that are not supported by written notes.

- **Marketable Securities** الأسهم القابلة للتسويق

Marketable Securities represent temporary investments made to secure a return on funds.

- **Cash** النقد

Includes coin and currency on hand, bank deposits (if subject to immediate withdrawal, e.g, checking accounts), negotiable paper (i.e., transferable by endorsement, in including bank checks, money orders, bank drafts, etc.). Cash is the most liquid asset owned by a firm.

◆ **Owner's Equity** حقوق الملكية

The difference between Assets and Liabilities is Owner's Equity. They can also be called capital, or net worth. Equity capital is the capital invested by corporation's stockholder.

◆ **Liabilities** **الخصوم (المطلوبات)**

Liabilities are debts owed by the business. Paying cash is often not possible or convenient, so businesses purchase goods and services on credit. The name of the account used is Accounts Payable. Another type of liability is Notes Payable. This is a formal written promise to pay a specific amount of money at a definite future date.

◆ **The Accounting Equations** **معادلة الميزانية**

(1) Assets = Liabilities + Owner's Equity **الأصول = المطلوبات + حقوق الملكية**

(2) Assets + Expenses + Losses = Capital + Liabilities + Revenues + Gains

The two sides of these equations must always be equal.

Terminology المصطلحات

Accounting	محاسبة	Liabilities	المطلوبات
Accounting entity	الوحدةالمحاسبية	Limited Company	الشركة المحدودة
Accounting Equation	المعادلة المحاسبية	Management Accounts	الحسابات الإدارية
Accounts Receivables	الحسابات المدينة	Marketable Securities	الأسهم القابلة للتسويق
Assets	الاصول	Matching	المقابلة
Assumptions	الفروض	Materiality	الأهمية النسبية
Balance sheet	الميزانية	Measurement unit	وحدةالقياس
Book-keeping	مسك االسجلات	Neutrality	الحيادية
Cash flow	التدفق النقدي	Objectivity	الموضوعية
Comparability	القابلية للمقارنة	Organization	المنظمة
Conservatism	التحفظ	Owner's equity	حقوق الملكية
Consistency	الثبات	Partnership	منشاة تضامنية
Constraints	المحددات	Periodicity	الدورية
Corporation	شركة مساهمة	Principles	المباديء
Cost and benefit	الكلفة والمنفعة	Private accounting	المحاسبة الخاصة
Current Assets	الاصول المتداولة	Private companies	الشركات الخاصة
Double-entry	القيد المزدوج	Profit and loss (P&L)	الربح والخسارة
Expenses	المصرفات	Public accounting	المحاسبة العامة
External users	المستخدمين الخارجيين	Public companies	الشركات العامة
Financial Accounts	الحسابات المالية	Public services	الخدمات العامة
Financial statements	القوائم المالية	Relevance	الملائمة
Fixed Assets	الاصول الثابتة	Reliability	الموثوقية
Forecasting	التنبؤ	Revenue recognition	الاعتراف بالإيراد
Full disclosure	الإفصاح التام	Revenue	الايرد
Going – concern	الاستمرارية	Separate entity	الوحدة المستقلة
Governmental Accounting	المحاسبة الحكومية	Sole proprietorship	منشاة فردية
Historical cost	الكلفة التاريخية	Stewardship	وظيفة الوكالة
Industry practices	الممارسات الصناعية	Stockholders	المساهمين
Internal users	المستخدمين الداخليين	Suppliers	المجهزين
Inventory	المخزون	Transaction	المعاملة او الصفقة

QUESTIONS

1- Define scientifically the accounting, and name only the assumptions and principles accounting.

2- Mention the accounting Assumptions and explain two from them.

3- Mention the accounting principles and explain two from them.

4- Explain the purposes of accounting.

5- Explain the functions of accounting.

6- Match the following Organizations and its Objectives

No.	Organizations	No.	Objectives
1	Quasi-governmental agencies	a	Making of profit
2	Public services	b	Achievement of charitable aims
3	Local Authorities	c	Provision of local services
4	Charities	d	Provision of public service
5	Private or public company	e	Coordination of public sector investments

7- **Choose the correct answers:**

(1) State whether each of the following statements are true or false.

a. Accounting is a language of business.

b. Accounting principles are referred to as rules of action on conduct.

c. Assets are always valued at market price as per the basis of the going concern concept.

d. As per the convention of disclosure, all material information should be disclosed by the accountants.

(2) The time period assumption states that:

a. Revenues should be recognized in the accounting period in which it is earned.

b. Expenses should be matched with revenues.

c. The economic life of a business can be divided into artificial time periods.

d. The fiscal year should be corresponds with the calendar year.

(3) The principle that dictates that efforts (expenses) be matched with an accomplishment (revenues) is the:

(a) Matching principle. (b) Cost principle.

(c) Revenue recognition principle. (d) Full disclosure principle.

(4) Accounting includes:

(a) Measurement (b) Verification

(c) Reporting (d) All of the previous,

(5) The Company opens drawings and capital account as an application entity assumption (concept).

(a) Continuity (b) Periodicity

(c) The entity (d) The unit of measurement

(6) All costs paid to buy a machine to make ready for intended use, is an application of:

(a) Revenue recognition principle. (b) Continuity Concept.

(c) Full-disclosure principle. (d)Cost principle.

(7) Using the accounting procedures from year to year means:

(a) Conservatism (b) Matching

(c) Consistency (d) Materiality

(8) All material information should be disclosed in the financial statements to make these statements clear and understandable for the reader is:

(a) Materiality (b) Consistency (c) Matching (d) Full disclosure,

- **Answers to question No. (6)**

No.	a	b	c	d	e
1					x
2				x	
3			x		
4		x			
5	x				

- **Answers to questions (7):**

No.	a	b	c	d
1.	True	True	False	True
2.			x	
3.	x			
4.				x
5.			x	
6.				x
7.			x	
8.				x

****

CHAPTER

(2)

ACCOUNTING PROCEDURES

1- Double Entry Accounting System

- **General Rules**
- **Accounting Equation**

2- Accounting Cycle and Books of Accounts

- **The Journal**
- **The Ledger**
- **Trial Balance**

3- Subsidiary Books

- **Cash Transactions**
- **Credit subsidiary books**

4- Discounts, Allowances and Returns

- **Kinds of Discount**
- **Purchases Returns and Allowances**
- **Sales Returns and Allowances**

5- Errors: Classification and Rectification

- **Classification of Errors**
- **Rectification of Errors**
- **Questions and Exercises?**

CHAPTER

(2)

ACCOUNTING PROCEDURES

الإجراءات المحاسبية

Accounting has been defined by the AICPA Committee on Terminology as " the act of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof." This chapter presents relationships between the various records used by the accountant in the preparation of financial reports.

1- DOUBLE - ENTRY ACCOUNTING SYSTEM

نظام القيد المزدوج

The standard accounting model for accumulating data in a business entity consists of the double-entry system based on the fundamental accounting equation (assets equal liabilities plus owners' equity). As the name implies, the entry made for each transaction is composed of two parts: one or more debits and one or more credits.

All accounting entries are made within the framework of the fundamental accounting equation. Each transaction must therefore be analyzed in terms of its effects on the elements of this equation. The advantages of the double-entry system include built-in controls which automatically all attention to many types of errors and offer assurance that once assets are recorded,

The double-entry system is in practically universal use; it takes its name from the fact that equal debit and credit entries are made for every transaction. The terms debit and credit can be related to the equation (A = L + OE) in the following way:

Assets = Liability + Owners' Equity

The difference in Dinars between the total debits and the total credits in an account is called the balance.

- If the debits exceed the credits the account has a debit balance.
- If the credits exceed the debits the account has a credit balance.

A- General Rule's **قواعد عامة**

(1) Assets **الأصول**

- All asset accounts normally have debit balances.

- An increase in an asset is recorded on the left (debit) side of the account.
- A decrease in an asset is recorded on the right (credit) side of the account.

(2) Liabilities and Owner's Equity المطلوبات وحقوق الملكية

- All liability and owner's equity accounts have credit balances.
- An increase in a liability or an owner's equity is recorded on the right (credit) side of the account.
- A decrease in a liability or an owner's equity is recorded on the left (debit) side of the account.

Summary statement of the rules of debit and credit:

Asset Accounts	Liability & Owner's Equity Accounts
Increases are recorded by debits Decreases are recorded by credits	Increases are recorded by credits Decreases are recorded by debits

Assets and liabilities are the two independent variables in the above equation; the dependent variable, owners' equity, is derived from the valuation assigned to assets and liabilities. One source of change in the owners' equity is the change in the net assets (assets minus liabilities) as a result of operations, measured by two classes of temporary accounts, revenues and expenses.

Revenue accounts measure the inflow of assets resulting from producing and distributing goods and services to customers. Expense accounts measure the outflow of assets necessary to produce and distribute these goods and services.

The net change in the assets as a result of these two flows is reflected in the owners' equity. Revenue and expense accounts are subject to the rules of debit and credit which were applied to the real or permanent accounts (assets, liabilities, and owners' equity). The application of the rules of debit and credit for revenue and expenses may be summarized as follows:

Expenses	Revenues
Increases in expenses are recorded by Debits	**Increases in revenues are recorded by Credits**
Decreases in expenses are recorded by Credits	**Decreases in revenues are recorded by Debits**

The following are the main principles of Double Entry System

A. Every Transaction has two sides.

B. One account is the receiver of benefit.

C. Other account is the giver of benefit.

It must be noted that the amount of benefit received by one account is equal to the amount of benefit given by the other. This enables us to record the two effects of any business transaction. There are three steps in recording any financial transaction:

1) Deciding as to what accounts are affected.
2) Deciding whether to debit or to credit the account.
3) Deciding on the amounts to be debited and credited.

Thus, every transaction has two double effects (تـأثير ثـنـائي) a n d a complete record of both these effects can be kept only by recording the transaction in two accounts.

B- Accounting Equation **المعادلة المحاسبية**

Accounting Equation consists three general Items: Assets, Liabilities and Owner's Equity

Assets = Liabilities + Owner's Equity (capital)

Assets = Fixed Assets + Stock + Liquid assets (debtors, cash, notes receivable).

Liabilities = Creditors + Notes Payable + Long-term Debts

Owner’s equity is defined as the difference between a business entity assets and liabilities. The definition of equity can be stated in the following equation:

Owner’s Equity = Total Equity - Equity of Creditors.

Owners Equity can also be expressed as proprietors’ funds.

Proprietors Funds = Fixed Assets + Stock + Liquid assets - Current Liabilities.

Or: Owners’ Equity = Capital + Reserves and Surplus.

The amount with which the proprietor starts his business is capital. In a running business, it is the excess of assets over liabilities.

Expenses reduces and revenue increases owners equity. Thus gain increases capital and loss decreases capital.

The above equations can further be explained as follows:-

Assets + Expenses = Capital + Liabilities + Revenues

Exercise (1)

September transactions of Kassim Estate Company to show the effect of each transaction upon the accounting equation. Briefly restated, the seven transactions were as follows (Amounts IQD 1000 thousands):

-Sept. 1 began the business by depositing IQD 180000 in a company bank account.

-3 Purchased land for IQD 141000 cash.

-5 Purchased a building for IQD 36000, paying IQD 15000 cash and incurring a liability of IQD 21000.

-10 Sold part of the land at a price equal to cost of IQD 11000, collectible within three months.

-14 Purchased office equipment on credit for IQD 5400.

-20 Received IQD 1500 cash as partial collection of the IQD 11000 account receivable.

-30 Paid IQD 3000 on accounts payable.

Transactions	Assets =					Liabilities + Owners' Equity	
	Cash	Receivable	Land	Building	Equip.	payable	Capital
Sep. 1	+ 180000	0	0	0	0	0	+ 180000
Sep. 3	- 141000	0	+141000	0	0	0	0
Sep. 5	- 15000	0	0	+36000	0	+21000	0
Sep. 10	0	+ 11000	- 11000	0	0	0	0
Sep. 14	0	0	0	0	+5400	+5400	0
Sep. 20	+ 1500	- 1500	0	0	0	0	0
Sep. 30	-3000	0	0	0	0	-3000	0
Balances	22500	+ 9500	+ 130000	+36000	+5400	= 23400	+ 180000
Total	203400					203400	

Exercise (2)

Yousif had the following transactions. Use Accounting Equation to show their effect on his assets, liabilities and capital (Amounts IQD 1000 thousands):

1) Invested IQD 250000 Cash.
2) Purchased Equity Shares of Omniah Limited for cash IQD 20000.
3) Purchased Land and Buildings for IQD 25000 paying IQD 5000 in cash and the balance through a loan.
4) Sold Shares of Omniah Limited costing IQD 5000 for IQD 6000.
5) Purchased a secondhand Car for IQD 5000 cash.
6) Received Cash as commission IQD 500.
7) Paid Cash IQD 1000 for loan and IQD 50 for interest.
8) Paid Cash for sundry expenses IQD 200.
9) Received Dividends IQD 100.

Solution:

Transactions	Assets	=	Liabilities	+	Owners' Equity
(1) Invested IQD 250000 in cash	+250000		0	+	250000
(2) Purchased Equity Shares of Omniah Limited for cash IQD 20000	-20000 +20000		0	+ +	0 0
Balance	250000		0		250000
(3) Purchased Land and Buildings for 25000 paying 5000 in cash and the balance through loan.	+25000 -5000		0 20000	+ +	250000 0
Balance	270000		20000	+	250000
(4) Sold Shares of Omniah Limited costing IQD5000 For IQD 6000 Cash.	+6000 -5000		0	+	+1000
Balance	271000		20000	+	251000
(5) Purchased a secondhand Car for cash IQD 5000	+5000 -5000		0	+	0
Balance	271000		20000	+	251000
(6) Received cash as Commission IQD 500	+500		0	+	+500
Balance	271500		20000		251500
(7) Paid cash IQD 1000 for Loan and IQD 50 for Interest.	-1000 -50		1000 0	+	0 (-) 50
Balance	270450		19000	+	251450
(8) Paid cash for sundry Expenses IQD 200	-200		0	+	(-) 200
Balance (9) Received dividends IQD 100 Cash.	270250 +100		19000 0	+	251250 100
TOTAL	270350		19000	+	251350

2- Accounting Cycle and Books of Accounts

الدورة المحاسبية وسجلات الحسابات

The accounting cycle is a complete sequence of accounting procedures which are repeated; in the same order during each accounting period. The accounting cycle in a traditional manual system includes of the following steps:

(1) Analysis of transactions from source documents.
(2) Journalizing transactions.
(3) Ledger posting.
(4) Balancing of each ledger account.
(5) Preparation of adjustment entries.
(6) Recording of adjustment entries.
(7) Posting of adjustment entries.
(8) Recording of closing entries.

(9) Preparation of Trial Balance.

(10) Preparation of Financial Statements (Final Accounts).

(11) Closing the books to summarize the activities of the period

(12) Reversing certain adjusting entries to facilitate the recording process in sub-sequent periods.

When these steps are completed, the cycle begins again for the next period.

Table (2-1)

The Following Chart Shows the main steps of the Accounting Cycle.

No.	Steps
Step (1)	Analyze transactions
Step (2)	Record transaction in the Journal
Step (3)	Post Journal entries to the Ledger accounts
Step (4)	Prepare a trial balance
Step (5)	Journalize and post adjusting entries and prepare adjusted trial balance
Step (6)	Prepare Financial Statement
Step (7)	Journalize and post closing entries
Step (8)	Carry forward the balance in the balance sheet a account to next accounting period

◆ Account الحساب

An account may be defined as a summarized and systematic record of the business transaction with respect to a particular person or particular kind of property or particular amount of expenses, loss incurred (or revenue or gain earned) by the business. In other words an account is a list of transactions falling under the same descriptions for a given period of time. Account in abbreviation can be written as A/c. It can be prepared for a month or for a year. Normally accounts are recorded for a year. The book in which all accounts are recorded is called as ledger.

◆ Classification of Accounts تصنيف الحسابات

Accounts are classified into two groups as under:

(A) Personal Accounts

(B) Impersonal Accounts

(A) Personal Accounts الحسابات الشخصية

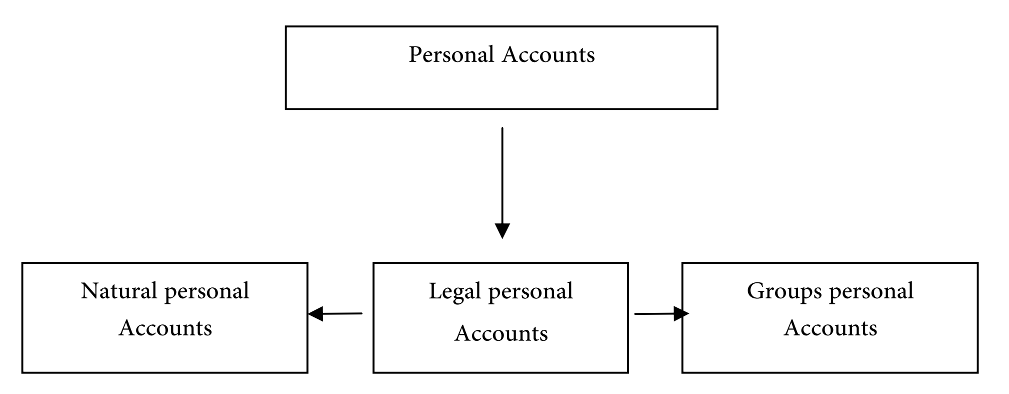
The account pertaining to an individual Firm, Company, or Association with which, the business deal is called a personal A/c. It is an account of natural person and legal person. Legal person does not have life

and body but law recognizes it as a person. In this category partnership firm, limited company, and Associations, are grouped.

Accounts of creditors, Debtors, Bank, Colleges, Hospitals and Club's are coming under personal Accounts. Personal accounts, in practice, may be of the following types.

Figure (2-1)

Personal Accounts



- **Personal Accounts**

◆ Natural personal Accounts

a. Nasser's A/c
b. Mariam's A/c
c. Ibrahim's A/c

◆ Legal personal Accounts

a. Basrah Chemicals LTD.
b. Dar AI – Anwar LTD.
c. Al-Qudes Insurance LTD.

◆ Groups personal Accounts

a. Debtors A/c
b. Creditors A/c
c. Revenues received in Advance A/c
d. Accrued Expenses A/c.

(B) Impersonal Accounts **الحسابات غير الشخصية**

All accounts other than personal accounts are known as Impersonal Accounts, e.g. Goods A/c Cash A/c, Wages A/c etc . Impersonal accounts are classified as:

a. Real A/c
b. Nominal A/c

(a) Real A/c الحساب الحقيقي

An Account pertaining to properties and assets owned by the business is called real A/c. In other words real accounts are those accounts which relate to property, asset or material objects e.g. Cash A/c Furniture A/c, Goods A/c, Stock A/c, Building A/c, and Machinery A/c. Hence, Real Accounts may assume the following two forms:

(1)Tangible Real Accounts: الحسابات الحقيقية الملموسة

These accounts consist of assets and properties which can be seen, touched, and felt. Tangible Real Accounts: Cash, Buildings, Goods, Furniture, Machinery, stock etc.

(2) Intangible Real Accounts: الحسابات الحقيقية غير الملموسة

These accounts consist of Assets and properties which cannot be seen, touched, felt but they are capable of measurement in terms of money. Intangible Real Accounts: Goodwill, Trade Marks etc.

(b) Nominal Accounts الحسابات الاسمية

An account pertaining to expenses, incomes, losses, gains and profits is known as nominal A/c. These accounts are called fictitious accounts as they do not represent any tangible asset. A separate A/c is maintained for each head of expense or loss or gain or income.

◆**Rules for Debit and Credit قواعد للمدين والدائن**

(A) Personal A/c الحساب الاسمي

Personal A/c relates to persons with whom business keeps dealings. Persons may be natural persons or legal persons. If a person receives anything from the business, he is called receiver, and his account is to be debited in the books of the business. If a person gives anything to the business, he is called giver and his A/c is to be credited in the books of the firm or business. Rules of personal A/c state that:

Debit the Receiver
Credit the Giver

(1) Goods worth IQD 1000000 sold to Ibrahim. In this transaction Ibrahim is the receiver of the goods, he is called receiver and his A/c is to be debited in the books of the firm.

(2) Purchased goods worth IQD 500000 from Khalid. In this transaction Khalid is the giver of the goods to the business and therefore his A/c is to be credited in the books of the business.

(B) Real A/c الحساب الحقيقي

Real A/c relates to property which may be either comes into the business or goes away from the business. If any property or goods comes into the business, Account of that property or goods is to be debited in the books of the business. If any property or goods goes out from the business, account of that property or goods is to be credited in the books of the business. Rules of Real A/c state that:

Debit what Comes in **Credit what Goes out**

For Example:-

1) When Machinery is purchased, Debit the Machinery account as it comes into the business.
2) When goods are sold out, Credit the Sales A/c as the goods are going out.

(C) Nominal A/c: الحساب الاسمي

Nominal account is the account of expenses and losses and revenues and gains. If any expenses are incurred by the business, account of those expenses will be debited. If any revenue or gain received by the business, account of that revenue or gain would be credited. In the transaction of sale or purchase of goods or assets, if any loss is incurred by the business, account of that loss will be debited in the books of the business. If in the transaction of sale or purchase of goods or asset, any profit is earned by the business, then account of that profit will be credited in the books of the business. Rules for journalisation for Nominal A/c:

Debit Expenses and Losses **Credit Revenues and Gains**

◆**Example**

(1) Paid IQD 50000 as commission to the agent.

(2) Received IQD 100000 as interest on fixed deposit.

In the first transaction commission which is paid to agent is an expense and it is to be debited in the books of the business.

In the second transaction interest which is received is a business income and therefore it has to be credited in the books of the business. The above rules can be presented in the form of a chart:

Table (2-2): Nature of accounts

Accounts	Nature of account	Reasons
Personal A/c	Debit	Receiver
	Credit	Giver
Real A/c	Debit	What comes in
	Credit	What goes out
Nominal A/c	Debit	Expenses and losses
	Credit	Revenues and gains

◆ **Source Documents** (المستندات الأولية (الأصلية

Every business transaction is recorded in the books of accounts on the basis of some documentary evidence which is called as a source document or supporting document or business paper or voucher It is the first record prepared for a business transaction. The source document shows the date, the amount, the nature of business transactions and the persons involved in its preparation. (e.g.) Purchase invoice, Sales invoice, Debit note and Credit note.

◆ **Transaction (المعاملة (الصفقة**

A transaction can be defined as any event which results in a change in asset, liability or capital accounts. The various transactions of a business are supported by sales invoices, cash register tapes; purchase invoices, check stubs, etc.

A business transaction is analyzed and classified according to the rules of debit and credit. After such classification each transaction is recorded in a book of accounts known as "Journal".

A- The Journal اليومية

The journal is the record of original entry for accounting data. Transactions are recorded in chronological order; each entry includes (1) the date, (2) the accounts to be debited and credited, (3) the debit and credit amounts, and (4) an explanation of the transaction.

The general journal is usually supplemented by a system of special journals which group repetitive transactions by type. Typically included in such a system are the purchases journal, sales journal, cash receipts journal and cash disbursements journal. Non-repetitive entries, such as corrections and adjustments, are made in the general journal.

It is an important book of accounts. It is a book of daily records. As the transactions take place, they are first recorded in a rough book or waste

book. In short, Journal is written on the basis of information recorded from the waste book. Business transactions are first entered in this book and subsequently they are posted to another book known as ledger.

The Format of Journal is given below:

Date	Particulars	Voucher No	Ledger Folio	Debit (Dr) IQD	Credit (Cr) IQD
Date of the Transaction	Name of the A/c Dr To Name of the A/c Cr (Being…..)				

◆ **Utility of Journal فائدة اليومية**

A Journal is needed for the following reasons:-

(1) The Journal has a great utility to the firm, because it provides complete, accurate, date wise permanent records of business transactions with different parties on every day.

(2) In the Journal, information is noted date wise systematically, which is useful to find out reference of transactions easily and immediately by the concerned party.

(3) The Journal is written on the basis of waste book and different source documents. Narration is written below the entry which is useful for understanding the nature of business transactions.

(4) By referring ledger folio, the accountant can find out easily the reference of a particular Ledger account.

(5) When business information is recorded systematically in the Journal, ledger can be written easily.

(6) The Journal as evidence in approving or disapproving claims e.g., if there is a fire in the go down and insured goods are lost by fire, insurance company or court decides the claim amount on the basis of information noted in the Journal.

(7) With the help of the Journal and ledger, cross-checking of the business transactions, can be done. It helps to locate and prevent errors.

◆ **Journalizing التسجيل في سجل اليومية**

Process of recording the business transactions in the Journal is known as Journalizing.

Steps to be followed for Journalizing:-

(1) First read the transaction carefully. Find out the accounts involved in the transaction.

(2) Ascertain the types of those accounts. Apply the rules of debit and credit.

(3) Write down the date of the transaction in the date column. In particulars column, same of the **(A/c)** to be debited is written on the first line. The word **“Dr"** is to be written against the name of the **(A/c)** to be debited and the word **“To"** is to be written preceding the name of the account to be credited.

(4) Write down the amount in figures in debit column and credit column, write down the brief explanation of the transaction in the brackets in particular column after the entry. Such explanation is called narration.

(5) After the narration a line should be drawn.

◆ **Example:**

Analyze the following transactions and record them in the Journal (Amounts in IQD 1000):-

1-1-2020 IQD 5000 received form Ahmad as loan to start business.

2-1-2020 Deposited IQD 5000 in the Bank.

3-1-2020 Purchased of furniture for IQD 500 on credit from Mr. Salam Co.

(1) Analysis

Date	Accounts affected	Nature of Account	Debit or Credit	Rules applicable	Amount IQD
1-1-2020	Cash A/c	Real	Debit	Debit what comes in	5000
	Ahmed’s loan A/c	Personal	Credit	Credit The giver	5000

Recording in the Journal

Date	Particulars	L.F.	Debit IQD	Credit IQD
	Cash A/c Dr. To Ahmed's Loan A/c (Being Cash received from Mr. Ahmed as loan)		5000	5000

(2) Analysis

Date	Accounts affected	Nature of Account	Debit or Credit	Rules applicable	Amount
2-1-2020	Bank A/c	Personal	Debit	Debit the Receiver	5000
	Cash A/c	Real	Credit	Credit what goes out	5000

Recording in the Journal

Date	Particulars	L.F.	Debit IQD	Credit IQD
2-1-2020	Bank A/c Dr. To Cash A/c (Being Cash deposited in the Bank)		5000	5000

(3) Analysis

Date	Accounts affected	Nature of Account	Debit or Credit	Rules applicable	Amount IQD
3-1-2020	Furniture A/c	Real	Debit	Debit what comes in	500
	Mr. Salam Co.	Personal	Credit	Credit the giver	500

Recording in the Journal

Date	Particulars	L.F.	Debit IQD	Credit IQD
3-1-2020	Furniture A/c Dr. To Mr. Salam & Co. A/c (Being Furniture purchased on credit from Mr. Salam Co.)		500	500

Exercise (3)

The followings transactions are subtracted from the books of Nehad

- 1-1-2020 Mr. Nehad started his business by bringing in cash IQD 50000
- 2-1-2020 Bank account opened IQD 10000
- 5-1-2020 Loan received from Ahmed by cheque deposited in the bank IQD 60000
- 9-1-2020 Goods purchased from Raheem on credit IQD 30000
- 10-1-2020 Sold goods to Salam on credit IQD 50000
- 16-1-2020 Stationery items purchased in cash IQD 30000
- 17-1-2020 Received cheque form Salman on account IQD 50000
- 28-1-2020 Paid by cheque to Raheem on account IQD 30000
- 30-1-2020 Cash withdrawn from Bank IQD 10000

Required: Journalize the transactions in the Journal maintained by Nehad.

Journal of Nehad

Date	Particulars	L.F.	Debit IQD	Credit IQD
1	Cash A/c Dr To Mr. Nehad's Capital A/c (Being business started by Mr. Nehad bringing in cash)		50000	50000
2	Bank A/c Dr To Cash A/c (Being Bank account opened by depositing cash in the Bank)		10000	10000
5	Bank A/c Dr To Ahmed's loan A/c (Being loan received from Ahmed deposited in the Bank)		60000	60000
9	Purchases A/c Dr To Raheem's A/c (Being goods purchased from Raheem on credit)		30000	30000
10	Salam's A/c Dr To Sales A/c (Being goods sold to Salam on credit)		50000	50000
16	Stationery A/c Dr To Cash A/c (Being stationery items purchased in cash)		30000	30000
17	Bank A/c Dr To Salman's A/c (Being cheque received from Salman on account)		50000	50000
28	Raheem's A/c Dr To Bank A/c (Being payment made by cheque to Raheem on account)		30000	30000
30	Cash A/c Dr To Bank A/c (Being cash withdrawn from Bank)		10000	10000
	TOTAL		320000	320000

◆**Kinds of Entries أنواع القيود**

There are two kinds of entries may be recorded in the Journal:

1. Simple Entry: القيد البسيط

In this kind of entry, only two accounts are affected. One account is debited and another account is credited like the entries mentioned above.

◆ **Example:**

Walled started business with Cash IQD 15000, Goods worth IQD 3000 and Machinery worth IQD 2000.

Date	Particulars	Dr.	Cr.
	1. He brings cash in business:- Cash A/c Dr To Capital A/c	15000	15000
	2. He brings goods in business:- Goods A/c Dr To Capital A/c	3000	3000
	3. He brings Machinery in business:- Machinery A/c Dr To Capital A/c	2000	2000

In all the above transactions the capital A/c is commonly credited. Hence, instead of making three entries separately, a combined entry may be conveniently passed as follows:

Date	Particulars	Dr.	Cr.
	Cash A/c Dr Goods A/c Dr Machinery A/c Dr To Capital A/c	15000 3000 2000	 20000

2. Compound Entry: القيد المركب

In a compound entry, more than two accounts are affected in this kind of entry.

There may be:-

(1) Several Accounts are to be debited and one account is to be credited.

(2) One Account is to be debited and several other accounts are to be credited.

(3) Several Accounts are to be debited and several accounts are to be credited.

Exercise (4)

Give a compound Journal entry for each of the following transactions (Amounts in IQD 1000):

- 1-10-2020 Started business with goods of IQD 4000, Furniture of IQD 1000 Cash IQD 2000 and a loan of IQD 3000 from Nasser.
- 2-10-2020 purchased goods of IQD 1000 from Hatim and paid him half the amount due
- 3-10-2020 Sold goods of IQD 1200 to Fadi and received from him half the amount due .
- 5-10-2020 the proprietor withdrew for personal use IQD 100 from the bank and IQD 400 from office cash.
- 7-10-2020 sold goods for IQD 2000 and received in exchange Furniture IQD 1800 and Stationery of IQD 200.

Journal

Date	Particulars	L.F.	Debit IQD	Credit IQD
1	Goods A/c Dr.		4000	
	Furniture A/c Dr.		1000	
	Cash A/c Dr.		2000	
	To Loan's Nasser			3000
	To Capital A/c			4000
2	Purchases A/c Dr		1000	
	To Cash A/c			500
	To Hatim's A/c			500
	(Being goods purchased and part payment made)			
3	Cash A/c Dr		600	
	Fadi's A/c Dr		600	
	To Sales A/c			1200
	(Goods sold and part of the amount received)			
5	Drawings A/c Dr		500	
	To Cash A/c			400
	To Bank A/c			100
	(For money withdrawn from Bank and from office cash for the proprietors personal use)			
7	Furniture A/c Dr		1800	
	Stationery A/c Dr		200	
	To Sales A/c			2000
	(For Furniture and stationery received in exchange for goods sold)			
	TOTAL		11700	11700

B- The Ledger سجل الأستاذ

Ledger is a book which records all the transactions from the Journal into a classified form. When goods are purchased or sold during a particular period, the Journal will record all these transactions but it will not be helpful in giving us the total figures of purchases, sales, total amounts received or paid .To avoid the inconvenience and to facilitate easy collection of, a book named **"Ledger"** is maintained. The ledger contains almost all the accounts of a business. It helps us to get speedy and accurate information with respect to a particular account. This book is maintained for keeping individual record of persons, properties, Expenses, Revenues, Losses and gains.

Name of account

Date	Particulars	J.F	Amount	Date	Particulars	J . F	Amount

Each page of the ledger is numbered. Left hand side is called the debit side and right hand side is called the credit side.

The ledger helps to a achieve the following results:

a) All personal accounts would show how much money is payable to creditors and how much to be receivable from debtors.
b) The nominal accounts would show the sources of revenue and the amount spent on various heads of expenses.

Steps to be taken for preparing the ledger A/c:-

(1) The name of the account should be written in the middle.
(2) The date on which transaction occurred should be written in the date column.
(3) In the particulars column on the debit side, name of the account to be credited should be written. It is to begin with the word "**TO**". In the particulars column on the credit side, name of the account to be debited should be written. It is to begin with the word "**BY**".
(4) In the J.F column, page number of the journal should be written.
(5) The amount of the transaction should be written in the amount column.
(6) Opening debit balance of the amount of the transaction should appear as, **"To Balance (b/d)"** on the debit side of the account and similarly opening credit balance of the account should appear as **"By Balance (b/d)"** on the credit side of the account.
(7) Real A/c like Cash A/c, Furniture A/c, Machinery A/c, etc always has an opening debit balance.
(8) Liabilities like Capital A/c, Bank Overdraft, Sundry Creditors etc, will have a credit balance.
(9) Every ledger account should be balanced periodically as required by the business concern.

◆Balancing of Ledger Accounts ترصيد حسابات الأستاذ

At the end of a certain period, the accounts are balanced. The following steps should be taken in balancing an account:-

(1) Make a total of both the sides of the ledger account. This can be done on a rough sheet.
(2) Compute the difference between the totals of both sides.
(3) Put the difference on the lighter side of the account, by writing against it: "By Balance c/d", If the debit side is more than the credit side of the account.

(4) Put the difference on the left side of the account, by writing against it: "To Balance c/d", if the credit side is more than the debit side of the account.

(5) Make the total of both sides. The total of the debit side will now agree with the total of the credit side of the account. It should be remembered that the total of both sides should agree with each other.

(6) Bring down the balance on the opposite side of the account, "To balance c/d" is brought down on the credit side below the totals in the particulars column as "By balance b/d", and "By balance c/d" is brought down on the debit side of the account in the "particulars column below the total as "To balance b/d".

◆ **Example:**

The following journal transactions are given. Post them to the ledger:

Date	Particulars	L.F.	Debit IQD	Credit IQD
2020 March 1	Cash A/c Dr To Capital A/c (Being Cash brought in as capital)		5000	 5000
5	Furniture A/c Dr To Cash A/c (Being Furniture bought for cash)		3000	 3000
9	Purchases A/c Dr To Salam's A/c (Being goods purchased from salam on Credit)		1500	 1500
	TOTAL		9500	9500

Posting to the ledger:

Cash Account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
2020 March 1	To Capital A/c		5000	2020 March 5	By Furniture A/c		3000

Capital Account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
				2020 March 1	By Cash A/c		5000

Furniture Account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
2020 March 5	To Cash A/c		3000				

Purchases Account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
2020	To Salam's A/c		1500				

Salam's Account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
				2020 March 9	By Purchases A/c		1500

- **Debit Balane** الرصيد المدين

If the debit side total is more than the credit side total, the balance will be debit balance.

- **Credit Balance** الرصيد الدائن

If the credit side total is more than the debit side total, the balance will be credit balance.

As the terms debit and credit are used in accounting, they have no meaning except as a directive for recording data in ledger accounts. Debit refers to the left side of the account and credit refers to the right side.

Exercise (5)

Journalize the following transactions, post them into the ledger and balance the accounts on 31st January 2020 (Amounts in IQD 1000) .

- 1-1-2020 Rahim started business with a capital of IQD 15000.
- 2-1-2020 He purchased goods from Maher on credit IQD 2000.
- 3-1-2020 He paid cash to Maher IQD 1000.
- 4-1 -2020 He sold goods to Sana on credit IQD 2000.
- 5-1-2020 He received cash from Sana IQD 3000.
- 6-1-2020 He further purchased goods from Maher on account IQD 2000.
- 7-1-2020 He paid cash to Maher IQD 1000.
- 8-1-2020 He further sold goods to Sana on credit 20000.
- 9-1-2020 He received cash from Sana IQD 10000.
- 19-1-2020 Paid in to Bank IQD 10000.
- 20-1-2020 Amount withdrawn from Bank for personal use IQD 2000.
- 30-1-2020 Paid salaries to staff IQD 3000.
- 31-1-2020 Received cash from Sana IQD 25000.
- 31-1-2020 Withdrew goods from business for personal use IQD 2000.

- **Journal of Rahim**

Date	Particulars	L.F.	Debit IQD	Credit IQD
2020 January 1	Cash A/c Dr. To Rahim's capital A/c (Being commencement of business)		15000	15000
2	Purchases A/c Dr To Maher's A/c (Being purchase of goods on credit)		2000	2000
3	Maher's A/c Dr To Cash A/c (Being payment of cash to Maher)		1000	1000
4	Sana's A/c Dr To Sales A/c (Being goods sold to Sana)		2000	2000
5	Cash A/c Dr To Sana's A/c (Being cash received from Sana)		3000	3000
6	Purchases A/c Dr To Maher's A/c (Being purchase of goods from Maher)		2000	2000
7	Maher's A/c Dr To Cash A/c (Being payment of cash to Maher)		1000	1000
8	Sana's A/c Dr To Sales A/c (Being goods sold to Sana)		20000	20000
9	Cash A/c Dr To Sana's A/c (Being Cash received from Sana)		10000	10000
19	Bank A/c Dr To Cash A/c (Being Cash deposited in to bank)		10000	10000
20	Drawings A/c Dr To Bank A/c (Amount drawn from the bank for personal use)		2000	2000
	Balance c/d		68000	68000
	Balance b/ d		68000	68000
30	Salaries A/c Dr To Cash A/c (Being Cash paid for Salaries)		3000	3000
31	Cash A/c Dr To Sana's A/c (Being Cash received from Sana)		25000	25000
31	Drawings A/c Dr To Purchase A/c (Being goods with drawn for personal use)		2000	2000
	Total		98000	98000

- **Ledger Accounts** **Cash A/c**

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
2020 Jan1	To Capital A/c		15000	2020 Jan 3	By Maher A/c		1000
15	To Sana's A/c		3000	7	By Maher A/c		1000
9	To Sana's A/c		10000	19	By Bank A/c		10000 3000
31	To Sana's A/c		25000	30	By Salaries A/c		38000
				31	By Balance c/d		
			53000				53000
Feb.1	To Balance b/d		38000				

C- Trial Balance ميزان المراجعة

a trial balance is defined as a list containing all the debit and credit balances of the ledger accounts. If the trial balance is prepared and it is tallied, that means all the postings and additions are arithmetically accurate.

Trial balance is a statement of debit and credit totals.

ITEMS	BALANCE
Assets	Debit
Liabilities	Credit
Expenses	Debit
Incomes	Credit
Provisions	Credit
Reserves	Credit
Capital	Credit
Closing stock	Debit
Drawings	Debit

- Closing stock will not appear in the Trial Balance. It will be shown in the adjustment.

Specimen Form of a Trial Balance

Trial Balance of………………… as on ………………

Serial No.	Account No.	Name of the Account	L.F	Debit Balance	Credit Balance
		Total			

Table (3): Nature of Balances of Different Ledger Accounts Debit and Credit Balances of ledger

Debit Balances	Credit Balances
Assets:- Debit Balance	**Liabilities :- Credit Balance**
L Land	1. Capital
2. Buildings	2. Reserves
3. Machinery	3. Credit balance of P&L
4. Furniture	4. Sundry Creditors
5. Motor Cars	5. Bills Payable
6. Closing stock	6. Bank Overdraft
7. Debtors	7. Loans
8. Bills Receivable	8. Accrued expenses etc.
9. Cash at Bank	
10. Preliminary Expenses etc	
Expenses:- Debit Balance	**Revenues :- Credit Balance**
l. Rent	1. Sales
2. Commission	2. Discount received
3. Interest	3. Commission received
4. Wages	4. Rent received
5. Carriage in	5. Rent from tenants
6. Carriage out	6. Income tax refund
7. Interest on Capital	7. Gains etc.
8. Depreciation	
9. Discount payable	
10. Salaries	
11. Sundry Expenses	
12. Advertisement	
13. Insurance	
14. Purchases	
15. Losses	

Exercise (6)

Prepare a Trial Balance of Mr. "Ali" as at 31st December 2020.

Serial No.	Name of the Account	Amount IQD
1	Stock (1.1.2020)	46800
2	Returns Inwards	8600
3	Purchases	321700
4	Freight and Carriage	18600
5	Rent and Taxes	5700
6	Salaries and Wages	9300
7	Sundry Debtors	24000
8	Interest on loan	900
9	Printing and Advertising	14600
10	Cash at Bank	8000
11	Furniture	5000
12	Discount	1800
13	General Expenses	11450
14	Insurance	1300
15	Postage and Telegram	2330
16	Cash in hand	380
17	Travelling expenses	870
18	Drawings	40000
19	Capital	86690
20	Sales	389600
21	Returns Outwards	5800
22	Sundry Creditors	14800
23	Loan @ 6%	20000
24	Miscellaneous revenues	250
25	Discount Earned	4190

Trial Balance of Mr. "A" as at 31st December 2020

Serial No.	Name of the Account	L.F	Debit Balance	Credit Balance
1	Stock (1.1.2020)		46800	
2	Returns Inwards		8600	
3	Purchases		321700	
4	Freight and Carriage		18600	
5	Rent and Taxes		5700	
6	Salaries and Wages		9300	
7	Sundry Debtors		24000	
8	Interest on loan		900	
9	Printing and Advertising		14600	
10	Cash at Bank		8000	
11	Furniture		5000	-
12	Discount		1800	
13	General Expenses		11450	
14	Insurance		1300	
15	Postage and Telegram		2330	
16	Cash in hand		380	

Serial No.	Name of the Account	L.F	Debit Balance	Credit Balance
17	Travelling expenses		870	
18	Drawings		40000	
19	Capital			86690
20	Sales			389600
21	Returns Outwards			5800
22	Sundry Creditors			14800
23	Loan @ 6%			20000
24	Miscellaneous revenues			250
25	Discount Earned			4190
	TOTAL		521330	521330

The trial balance is prepared to check the arithmetical accuracy of accounts. If the trial balance does not tally, it implies that there are arithmetical errors in the accounts which require location, detection and rectification thereof.

3- SUBSIDIARY BOOKS دفاتر الأستاذ المساعدة

Where the transactions are numerous, the firm maintains subsidiary books and journals, wherein the business transactions are first recorded. Then the transactions are posted into the ledger and final accounts are prepared. For the purpose of quicker work and more turnovers, the journal is split into a number of subsidiary books for recording a particular type of transactions by each department of a business.

Advantages of subsidiary books:

(1) Make the work done easily and quickly.

(2) Increase the efficiency of accounting work.

(3) Save labor and time.

Thus separate books are maintained for cash transactions and credit transactions:

(A) Cash transactions:

a. Cash book for receipts and payments,

b. Petty cash book.

(B) Credit transactions:

a. Credit sales book.

b. Credit purchases book.

c. Purchases returns book.

d. Sales returns book.

e. Notes (bills) receivable book.

f. Notes payable book.

A- Cash Transactions العمليات النقدية

(1) Cash Book for receipts and payments سجل النقدية للمقبوضات والمدفوعات

A business has to receive cash and pay cash for its various activities. The main sources of cash receipts are cash sales, receipts from debtors, cash withdrawals from Bank, and taking loan from others. The main sources of cash payments are cash purchases, payments to creditors, deposits in the bank and payments to various expenses.

The cash book records all the above transactions for a particular period and the balance shown by the cash Book should be equal to the actual cash on hand.

The two sides of a cash-book are receipts side and payments side and the difference should be equal to the remaining cash in the cash box. There is no need for a separate cash account in the ledger, because the cash book itself is like a cash account in the ledger.

Format of a cash book

Date	Receipts	R.No. (*)	L.F. (**)	Amount IQD	Date	Payments	V.No (***)	L.F.	Amount IQD

The symbols appear in the above format are:-

(*) R.No. means Receipt Number

(**) L.F. means Ledger Folio

(***) V.No. means Voucher Number

(1) Receipts side:(جانب المقبوضات) On Receipts side, cash account is always debited, all cash receipts are debited.

(2) Payments side : (جانب المدفوعات) On payments side cash account is always credited, all cash payments are credited.

Exercise (7)

The following transactions are occurred during the month of December 2020.

December 1. Balance of cash on hand 400000

4. Introduced cash as further capital 10000000

5. Sold goods for cash 3000000

6. Collected from kassim 8000000

10. Purchased goods for cash 2000000

11. Paid to Rasheed 2500000

12. Paid commission to an agent 500000

15. Purchased office furniture for cash 2000000

16. Rent paid 100000

17. Taken cash for personal use 1000000

18. Cash sales 5000000

20. Received amount from Yasser 4000000

23. Dividend received in cash 100000

28. Paid salaries 2000000

30. Deposited Cash into bank 2000000

Required: Enter the above transactions in a cash book with receipts and payments and balance the cash book on 31st Dec. 2020.

Cash Book

Date	Receipts	L.F	Amount IQD	Date	Payments	L.F	Amount IQD
Dec. 1	To balance b/d		400000	Dec.10	By Purchases		2000000
4	To Capital		10000000	11	By Rasheed		2500000
5	To Sales		3000000	12	By commission		500000
6	To kassim		8000000	15	By Furniture		2000000
18	To Sales		5000000	16	By Rent		100000
20	To Yasser		4000000	17	By Drawings		1000000
23	To Dividends		100000	28	By Salaries		2000000
				30	By Bank		2000000
				31	By Balance c/d		18400000
			30500000				30500000
2013 Jan. 1	To Balance b/d		18400000				

(2) The Petty Cash Books سجل صندوق النثرية

A business can have two types of payments:

(1) Major payments

(2) Minor payments

Major payments are entered in the cash book. Minor payments are entered in the petty cash book. Minor cash payments are termed as "petty" that is small payments. This petty cash book is also known as analytical petty cash book.

At the end of the month, a journal entry is passed in the journal proper by debiting all the expenses accounts with their respective totals and giving corresponding credit to "Petty Cash Account".

The main cashier passes an entry in the journal as

Date	Particulars	Dr.	Cr.
	Expenses A/c Dr	xx	
	To Petty cash A/c		xx

The total of each head of expenditure is posted to the debit side of the respective account in the ledger, so that the double entry is complete.

Format of an analytical petty cash book

Cash Receiv	Date	Particulars	V. No	L. F.	Total Payments	Postage and Teleg.	Printing and Stationery	Cleaning exp.	Cartage	Office exp.	Travelling exp.	Ledger A/cs
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)

Exercise (8)

The following transactions are incurred through the month of January 2020 (Amounts in IQD 1000).

Jan. 1	Cash received for petty cash payments	800000
Jan. 3	Paid for postage	30000
Jan. 4	Paid for telephone exp.	100000
Jan. 5	Paid for telegram	10000
Jan. 13	Paid for stationery	40000
Jan. 16	Paid for travelling expenses	120000
Jan. 19	Donated for charity	50000
Jan. 20	Paid for repairs	150000

Required: Prepare petty cash book on the advances system (نظام السلف المستديمة) from the above transactions and pass the journal entries.

Solution:

Petty cash book

Cash received	Date	Explication	Total payments	postage	Tel.	Teleg.	Stat.	Trav.	Donation	repairs
800000	Jan. 1	To cash								
	3	By postage	30000	30000						
	4	By telephone exp.	100000		100000					
	5	By telegram	10000			10000				
	13	By stationery	40000				40000			
	16	By travelling exp.	120000					120000		
	19	By donation	50000						50000	
	20	By repairs	150000							150000
	31	By ending balance	300000							
800000			800000	30000	100000	10000	40000	120000	50000	150000
300000	Feb.1	To Balance b/d								
500000	Feb.1	To cash								

Journal entries

Date	Explanation	Dr.	Cr.
Jan. 1	Petty cash A/c Dr To Cash A/c	800000	800000
Jan. 31	Minor expenses Dr To petty cash A/c	500000	500000
Feb. 1	Petty cash A/c Dr To cash A/c	500000	500000

B- Credit subsidiary books دفاتر الأستاذ المساعدة الآجلة

For the purpose of quicker work and more turnovers, the ledger is split into a number of subsidiary books for recording a particular type of transactions. There are separate books for recording credit transactions:

1. Purchases Book
2. Purchases Returns Book
3. Sales Book
4. Sales Returns Book
5. Bills Receivable Book
6. Bills Payable Book.

1. Credit Purchases Bookسجل المشتريات الآجلة

Purchases Book is used for recording only credit purchases of goods in which the business deals. It is maintained by the purchases department. It is also known as purchases day book. It is used to write only credit purchases of goods cash purchases or credit purchases of an asset are not recorded in the purchases book.

2. Purchases Returns Bookسجل مردودات المشتريات

It may be necessary to return some goods that the firm has bought on credit for a variety of reasons. All returns of such goods are recorded primarily in Returns Outward Book. This book is also known as Purchases Returns Book.

Exercise (9)

The following transactions are related to Alwafa' Co. on April 2020:

April 2. The company purchased 100 shirts by IQD 10000 each, Invoice No. 10 from Modern factory.

23. Purchased 50 ties by IQD 3000 each from Beauty by invoice No.120.

24.Purchased 400 trousers IQD 5000 each, from Mahmoud, invoice No155.

25. Modern factory returned 10 shirts by Memorandum No. 5.

26. Mahmoud returned 50 trousers by Memorandum No. 9.

Required: Enter the above transactions into credit purchases book and purchases returns book.

Credit Purchases Book

Date	Name of Supplier	L.F	Invoice No.	Amount IQD
2020 April 2	Modern factory		10	1000000
23	Beauty		120	150000
24	Mahmoud		155	2000000
	Total			3150000

Purchases returns Book

Date	Name of Supplier	L.F	Memo. No.	Amount IQD
2020 April 25	Modern factory		5	100000
26	Mahmoud		9	250000
	Total			350000

3. Credit Sales Book سجل المبيعات الآجلة

Sales Book is meant for writing up only credit sales of goods dealt by the Business. It is maintained by the sales department. The sales book is maintained to record only credit sales of goods in which the business deals. Cash sales of the goods and sale of assets are not recorded in the sales book. This book is also known as sales Day book or sales journal.

4. Sales Returns Book سجل مردودات المبيعات

Goods may be returned by the customers for a variety of reasons. All goods returned from customers are recorded in Sales Returns Book. This book is also known as Returns Inward Book.

Exercise (10)

During March 2020 Modern Furniture Company has the following transactions:

- March 6. Sold 20 chairs by IQD 8000 each to Al-Muthana university invoice No. 145.
- March 8. Sold 80 offices by IQD 100000 each to Babel University invoice No. 146.
- March 19. Sold 20 boards by IQD 40000 each, to Saeed invoice No.170.
- March 28. Sold 100 book shelf by IQD 5000 each for Basrah University, invoice No.192.

The following sales returns occurred:

- 16. Babel University returned 10 offices by credit Memo.No.19
- 24. Saeed returned 5 boards by credit Memo. No.28.

Required: Enter the above transactions in credit sales book and sales returns book.

Credit Sales Book

Date	Name of customer	L. F.	Invoice No.	Amount IQD
March 6.	Al-Muthana University		145	160000
8.	Babel University		146	8000000
19.	Saeed		170	800000
28.	Basrah University		192	500000
	Total			9460000

Sales Returns Book

Date	Name of customer	L.F.	Credit Memo.	Amount IQD
March16.	Babel University		19	1000000
24.	Saeed		28	200000
	Total			1200000

5. Bills Receivable Book **سجل أوراق القبض**

When credit sales of goods are made the purchaser gives his guarantee to make payment in future in the form of bill. When the seller receives such bill, it is Bill Receivable for him as he will receive payment in future against such bill. In case a business house receives a number of bills, a Bills Receivable Book is maintained to record all such bills.

6. Bills Payable Book **سجل أوراق الدفع**

When credit purchases are made by a firm it gives a guarantee to the seller to make payment in future in the form of a bill. This bill is said to be Bills Payable for the firm as he will pay for the bill in future. A Bills Payable Book is opened to record all such bills.

7. Journal Proper**اليومية الخاصة**

It is a subsidiary book maintained to record the transaction which cannot be recorded in other special subsidiary books. Usually the transactions of infrequent character are recorded in the journal proper. The entries like adjustment entries, opening entries, closing entries, transfer entries, purchase and sale of assets on credit, interest on capital, interest of drawing etc. are recorded in journal proper.

Exercise (11)

The following transactions are related to commercial papers [Notes (Bills) receivables & payables] for Amal company on April 2020:

- April 2. layeith signed a bill for Amal company at IQD 1000000 due at May, 10,2020.
- April 12. Samawah cement company received a bill from Amal Co. IQD 500000 due after two months.
- April 20. Nabeel signed a bill at IQD 400000 due at 31/5/2020.
- April 30. Zaid signed a bill at IQD 300000 due at 30/7/2020.
- April 30. Amal company signed a bill at IQD 150000 due at 31/8/2020 for Suhail.

Required: Enter the above transactions in Bills receivable Book and bills payable Book.

Notes (Bills) Receivable Book

Date	Name of customer (Drawee)	Due date	amount IQD
2020 April 2.	Layeith	May, 10, 2020	1000000
20.	Nabeel	May, 5, 2020	400000
30.	Zaid	July, 30, 2020	300000
	Total		1700000

Notes (Bills) Payable Book

Date	**Name of Supplier (Drawer)**	**Due date**	**amount IQD**
2020 April 12.	Sa mawah Cement Co.	June, 12,2020	500000
30.	Suhail	Aug, 31, 2020	150000
	Total		650000

Exercise (12)

Record the general Journal entries of the previous exercises (9, 10, 11).

Date	Explanation	Dr.	Cr.
April 30	Purchases A/c Dr	3150000	
	To accounts payable		3150000
April 30	Accounts payable Dr	350000	
	To Purchases returns		350000
March 31	Accounts receivables Dr	9460000	
	To sales		9460000
March 31	Sales returns Dr	1200000	
	To accounts receivables		1200000
April 30	Notes receivables Dr	1700000	
	To Accounts receivables		1700000
April 30	Accounts payable Dr	650000	
	To Notes payable		650000

4- DISCOUNTS, ALLOWANCES AND RETURNS

الخصومات والسماحات والمردودات

A discount is a deduction in price given by the seller to the buyer against purchase the goods. This deduction may be in the price of goods bought or sold or in the amounts of cash to be received or paid.

A- Discounts **الخصومات**

There are several different types of discounts and allowances, as show below:

(1) Trade Discount الخصم التجاري

(2) Cash Discount الخصم النقدي

(3) Quantity Discount خصم الكمية

(1) Trade Discount **الخصم التجاري**

Trade discount is a percentage reduction from a list price granted from the producer to his distributors or to customers. He will make a discount of 5% or 10% or 15% as per his business policy. Trade discount may be given from the wholesalers to the retailers.

Trade discounts are not normally recorded in the accounts by either the buyer or the seller, since they are neither gains nor losses for the buyer or seller. Trade discounts will be shown only in the invoice and not taken to books of accounts.

(2) Cash Discount **الخصم النقدي**

Cash Discount is typically used by sellers to encourage buyers to pay earlier, improving the seller's cash flow. The seller called this discount sales discount; the buyer called this cash discount purchases discount.

Cash discount is a deduction from the invoice price for prompt payment. Cash Discounts can be expressed in many ways, including as follow:

- 3/15 net 30 which means the full (net) amount is due in 30 days, but a 3% discount is available if paid within 15 days.
- Credit terms (5/10, n/ 30) means that the debtor may take a 5 percent discount if the invoice is paid within 10 days of the invoice date; otherwise (بتعبير آخر) the debtor may wait 30 days and pay the full amount of invoice without cash discount. Cash discount allowed will appear in the books of accounts.

Cash discounts can also be tied (يرتبط) to different methods of dating, including:

(1) ROG Dating (تاريخ استلام البضاعة) which starts the payment clock when the buyer receives the goods;

(2) Ordinary Dating (تاريخ اعتيادي للفاتورة) which starts the payment clock at the date of the invoice;

(3) X Dating (تاريخ معين بعد تاريخ الفاتورة) which starts the payment clock X days after the invoice date.

(4) EOM Dating (تاريخ نهاية الشهر) which starts the payment clock at the end of the month;

◆ **Example:**

Assume that the terms for purchase of IQD 1000000 of goods on January 3 are 2/10, n/30. If the purchase is paid for on January 13, the buyer

can take a 2 percent discount. Thus, the buyer must pay only IQD 980000 to settle the invoice. The entries are recorded in the buyer's books as follow :

Date	Particulars	Dr. IQD	Cr. IQD
Jan.3	Purchases A/c Dr To Creditors A/c (Purchased goods on terms 2/10, n/30)	1000000	 1000000
Jan. 13	Creditor A/c Dr To Cash A/c To Purchase Discount A/c (Paid creditors for merchandise within discount period)	1000000	 980000 20000

◆**Example:**

Suppose that a company sells to a customer on April 12, 2020 for IQD 1000000 on payment terms of "2/10 n/30". On April 22, that is, within the discount period, the customer paid IQD 980000. The required Journal entries in the seller's Books are:

Date	Particulars	Dr. IQD	Cr.. IQD
April 12.	Debtors A/c Dr To Sales A/c (Being sold merchandise on credit)	1000000	 1000000
April 22.	Cash A/c Dr Sales Discount A/c Dr To Debtors A/c (Being collected from debtors less discount)	980000 20000	 1000000

Table (2-4): Differences between Trade Discount and Cash Discount

No	Trade Discount	No	Cash Discount
1	Trade Discount is given by the seller to the buyer.	1	Cash Discount is given by the creditor to the debtor.
2	Trade Discount is given to increase the sales.	2	Cash Discount is given for early payment or timely payment.
3	Trade Discount is given at the time of purchase of goods.	3	Cash Discount is given at the time of settlement of debts.
4	Trade Discount is deducted from the invoice.	4	Cash Discount is not deducted from the invoice.
5	Trade Discount is not appearing in the books of accounts.	5	Journal Entries for cash discount are entered in the books of accounts.

(3) Quantity Discount خصم الكمية

Quantity Discount is simply a reduction of the price on the purchase of a large quantity of goods. It is given to a customer inducing him to purchase more and more goods. Usually, as the purchased units increase, the customer gains a higher percentage of quantity discounts.

In the books of accounts, the quantity discount is treated in same manner as cash discount. But by the year end, it is closed to the final accounts (Trading account, profit and Loss Account) according to the applied accounting treatments.

Exercise (13)

Record the following transactions in the journal of the buyer Ali and the seller Sameer:

- 1st June Sameer sold goods for Ali IQD 10000000 at 10% trade discount with credit terms (5/10, n/45).
- 3rd June Sameer agreed to grant (منح) quantity discount as follows:
    - 2% for the first 2000 units
    - 5% from 2001 - 4000 units
    - 10% more than 4000 units
- Ali purchased (bought) 5000 units at IQD 10000 each.
- 5th June Sameer paid the amount for 1st of June purchases.

Sameer's Journal (The seller)

Date	Particulars		Dr. IQD	Cr. IQD
l'st June	Accounts receivable	Dr	(1) 9000000	
	To sales revenues			9000000
3rd	Accounts receivable	Dr	47600000	
	Quantity discount A/c	Dr	(2) 2400000	
	To sales revenues			50000000
5th	Cash A/c	Dr	8550000	
	Sales discount A/c	Dr	(3) 450000	
	To accounts receivable			9000000

(1) 10000000 – (10000000 ×10%) = 9000000

2000 units × 2% = 40

- 2000 units × 5% = 100
- 1000 units × 10% = 100

(2) (40 + 100 + 100) x IQD 10000 = 2400000 IQD

(3) 9000000 - (9000000 x 5%) = 8550000 IQD

Ali's Journal Book (The buyer)

Date	Particulars	Debit IQD	Credit IQD

June,1.	Purchases A/c Dr. To Accounts payable A/c	9000000	 9000000
 June,3.	Purchases A/c Dr. To Quantity discount A/c To Accounts payable A/c	50000000	 2400000 47600000
June,5	Accounts payable A/c Dr. To purchases discount A/c To cash A/c	9000000	 450000 8550000

B- Purchases Returns and Allowances مردودات المشتريات والسماحات

When merchandise purchased from supplier is found to be unsatisfactory (غير مرضي), the buyer may returns the goods or accepts an allowance on the price. Whenever there is a purchase return or allowance, the buyer sends the seller a debit note to notify him that the seller's balance is being reduced. Purchases returns and allowances are recorded by crediting the purchase Returns and Allowances account, as illustrated below:

Date	Particulars	Dr.	Cr.
	Creditors / Cash A/c's Dr To Purchases Returns and Allowances A/c	xxx	 xxx

Net Purchases = Purchases – (Returns + Allowances)

C- Sales Returns and Allowances مردودات المبيعات والسماحات

Most merchandising companies allow a customer to return goods that are found to be unsatisfactory or defective (ناقص). A sales return is merchandise returned by a buyer. Sometimes the customer finds that the goods supplied has minor defects and may agree to keep such goods if an allowance, called sales allowance, is made off the sale price. Sales allowances are granted for any number of reasons, including inferior quality, damage, or deterioration in transit.

In all cases of sales returns and sales allowances the seller sends the buyer a document called a credit note, which indicates that the balance in the customer's account is being reduced.

Sales returns and allowances could be recorded as debits to the sales account because they cancel part of the selling price. A contra sales account called Sales Returns and Allowances account is debited. Sales returns are normally recorded in the year in which the returns occur.

The Journal entry to record Sales Returns and Allowances account as follows:

Date	Particulars	Dr.	Cr
	Sales Returns and Allowances A/c Dr To Debtors/Cash A/c (Allowance for return of merchandise)	xxx	xxx

Net Sales = Sales – (Returns + Allowances)

5- ERRORS: CLASSIFICATION AND RECTIFICATION

الأخطاء:تصنيف وتصحيح

Mistakes or errors which are committed(ترتكب) in writing the accounting entry or amount on wrong side of the ledger account, or failing to pass one effect in account etc.., are considered as accounting errors. Such errors are required to be corrected as soon as they are detected .Some errors are disclosed by checking the accounts, whereas some errors are disclosed by Trial Balance.

A- Classification of Errors **تصنيف الأخطاء**

Accounting errors are classified as:

(A) Errors not disclosed by the Trial Balance **الأخطاء غير المكتشفة في ميزان المراجعة**

Although, the totals of the Trial Balance are equal, some mistakes may remain undetected (غير مكتشفة). The agreement of a trial balance is not affected due to (ناتج عن) the following errors:-

(1) Complete omission of a transaction **الحذف الكامل للعملية**

If any particular transaction is not recorded at all, it would not affect the agreement of the Trial Balance. Such type of errors is not disclosed by the Trial Balance.

(2) Recording of wrong amounts on both sides **التسجيل الخطأ للمبلغ في الجانبين**

If wrong amounts of the transaction are entered on both the sides of ledger accounts, it would not be disclosed by the Trial Balance.

Example: Good worth IQD 570000 from Amar Trading, was written in the Journal book IQD 750000 instead of IQD 570000, in this case the trial balance will tally (يتساوى).

(3) Errors of omission **أخطاء السهو**

Error of omission means that any transaction has been completely omitted to be recorded in the books of original entry and in the ledger. This error will not be disclosed by trial balance.

(4) Error of Duplication **أخطاء مكررة**

This Error means recording the same transaction twice in the original books of entry and also posting it to the ledger, such error does not affect the agreement of trial balance.

(5) Posting to wrong head of accounts **أخطاء في اسم الحساب**

If posting from the journal to ledger is made to the wrong account with the same amount, this error will not be disclosed by the Trial balance.

Example: Purchased furniture for cash IQD 1200000, was posted to the debit side of the machinery account instead of furniture account.

(6) Compensating Errors **الأخطاء المعوضة**

When one mistake nullifies (يلغـي) the wrong effect of another, it is called a compensating error: The trial balance fails (يخفـق) to disclose them. These errors are generally arithmetical errors.

Example: The debit side of Khalid's account is overcast by IQD 100000; at the same time of the credit side of Khalid's account is also overcast by IQD 100000.

(7) Errors of Principle **أخطاء فنية**

When a transaction is recorded against the fundamental principles of accounting, it is an error of principle. For example, if revenue expenditure is treated as capital expenditure or vice-versa.

(B) Errors disclosed by the Trial Balance **أخطاء تكتشف في ميزان المراجعة**

The agreement of the Trial balance may be affected by one or more of the following types of mistakes:-

(1) Partial omission of a transaction **أخطاء السهو الجزئي**

If the transaction is recorded in the journal but by mistake it is not posted in the ledger, the Trial balance will not agree.

Example: Cash received from Salem IQD 200000, this amount is entered properly in the cash book, but it is not posted to the credit side of Salem's account.

(2) Posting of the wrong amount **الترحيل الخطأ للمبالغ**

If posting is made of a wrong amount from journal to ledger, the Trial balance will disagree.

Example: Purchased goods on credit from Hussein IQD 150000, was entered correctly in the purchases account, but it is posted by IQD 50000 instead of IQD 150000 to credit side of Hussein's account. The credit column of trial balance will be less than the total column by IQD 100000

(3) Posting on the wrong side of a account **أخطاء الترحيل إلى جانب خطأ من حساب**

When the transaction is posted to the wrong side of an account in the ledger, it causes disagreement in the trial balance.

Example: Amount of IQD 250000 is received as interest, this amount was correctly recording in the cash book, but it is entered in the debit side of interest's account instead of credit side in the same account.

(4) Wrong totaling or balancing **أخطاء الجمع أو الترصيد**

If a ledger account is wrongly totaled up or wrongly balanced, the trial balance will not tally.

B- Rectification of Errors **تصحيح الأخطاء**

(A) Errors affecting one Account

These types of errors may occur due to the following reasons:-

(1) Wrong Castings أخطاء التنظيم
(2) Wrong Recording أخطاء التسجيل
(3) Wrong Posting أخطاء الترحيل
(4) Wrong balancing أخطاء الترصيد

These errors are not difficult to locate. They are located during the course of preparation of the trial balance; hence there is no need to pass any journal entry to rectify these errors. The error is rectified by giving proper explanatory note or by crossing the wrong figure with red ink line and writing the correct figure a above the crossed out figures.

(B) Errors affecting two or more accounts

These errors may include the following:-

Errors of Omission

Errors of Recording

Errors of posting to wrong account

Errors of principle.

There are three methods to rectify of the errors:-

1. Long Method الطريقة المطولة

Under this method there are four steps to rectify the errors;

(1) Pass the wrong entry

(2) Pass the reverse of the wrong entry

(3) Pass the correct entry

(4) Combine or reconcile reverse entry and correct entry to find out rectification entry.

◆ **Example:**

Rent of IQD 500000 paid to Ismail by cash has been debited to his personal account. This type of error is principle, to rectify this error; following procedure is to be adopted.

Steps of Rectification (2, 3, 4)

Wrong entry (1)	Reverse entry (2)	Correct entry (3)	Rectification entry (4)
Ismail A/c 500000 To Cash A/c500000	Cash A/c Dr 500000 To Ismail A/c 500000	Rent A/c Dr 500000 To Cash A/c 500000	Rent A/c Dr 500000 To Ismail A/c 500000

◆ How discover the errors? كيف تكتشف الخطأ

When the trial balance disagrees, the following steps can be taken to discover the error:

(1) Checkup the totals of both sides of the Trial balance once again.

(2) See whether any ledger balance has been left out of Trial balance.

(3) Find the difference between the two totals.

(4) Divide the difference of trial balance by two.

(5) See, whether an account leaving the same figure has been recorded wrongly in the other column debit as credit or vice -versa.

(6) Compare the balances entered in the Trial Balance with the balances as disclosed by the several ledger accounts.

(7) See no balance has been omitted while extracting from the ledger.

(8) See that no debit balance has been taken out as credit or vice - versa.

(9) Compare the present Trial Balance with that of the previous one and see whether any ledger account has been omitted to be included in this year's books.

(10) Totaling and balancing of all ledger accounts should be redone. If the error is still undetected, Checkup all the subsidiary books and their postings.

(11)Watch all carry forwards and all opening balances with the help of the previous Balance Sheet.

In spite of all the above checks, the errors could not be located, place the difference in a suspense account, and tally the Trial balance. But all

efforts should be made to locate the errors and rectify them as early as possible.

Short Method الطريقة المختصرة

Under this method, the error is rectified direct by only one accounting entry. The following table contains the procedures of correction of the errors.

Errors	Rectification
1. If an account is not debited	Debit that account
2. If an account is not credited	Credit that account
3. If an account is wrongly debited	Credit that account
4. If an account is wrongly credited	Debit that account
5. Excess (over) debit in an account	Credit that account
6. Excess (over) credit in an account	Debit that account
7. Short (under) debit in an account	Debit that account
8. Short (under casting) Credit in an account.	Credit that account.

Exercise (14)

Pass journal entries to rectify the following errors by short method:

(1) An amount of IQD 780000 paid for erection of Machinery was debited to Wages A/c.

(2) Credit purchase of goods worth IQD 1500000 from Rahem was wrongly entered to Sales A/c.

(3) Paid Rent IQD 158000 to Kamel was wrongly debited to his personal account.

(4) An amount of IQD 150000 received as commission was wrongly credited to interest A/c.

(5) Paid general expenses IQD 181000, same were posted to ledgers as IQD 118000.

(6) An amount of IQD 2500000 received from Nedal was posted to the credit of Nael IQD 2500000

(7) A payment of IQD 650000 for salaries has been posted twice to salaries A/c.

Rectification of Errors

Date	Particulars	Debit IQD	Credit IQD
	Machinery A/c Dr	780000	
1	To Wages A/c		780000
	(Correction of wrong debit given to wages A/c)		
	Sales A/c Dr	1500000	
2	Purchase A/c Dr	1500000	

Date		Debit	Credit
	To Rahem's A/c (Correction of wrong effect given to sales A/c)		3000000
3	Rent A/c Dr To Kamel's A/c (Correction of wrong effect given to personal A/c)	158000	158000
4	Interest A/c Dr To Commission A/c (Correction of wrong effect given to interest A/c)	150000	150000
5	General expenses A/c Dr To Cash A/c (Being under debit given to general expenses and under credit given to cash A/c corrected)	63000	63000
6	Nael A/c Dr To Nedal's A/c (Correction of wrong effect given to Nael's A/c)	2500000	2500000
7	No journal entry is required. This is one side error. Here excess debit is given to salaries A/c to the Salaries A/c by IQD 650000.		

3. Suspense Account الحساب المعلق

Suspense account is an account when the trial balance is shown different between total of debit and credit balances that time the suspense account will use temporarily for equal total of debit and credit balances for closing the financial statements.

In case, the debit side exceeds the credit side the difference is put on the credit side of suspense account and it is posted on the liability side of the balance sheet. Likewise, if the credit side of the trial balance exceeds the debit side, the difference is put on the debit side of suspense account and it is posted to the asset side of the balance sheet. It may be noted that suspense account is used to rectify those errors which affect the trial balance.

Exercise (15)

Upon drawing his Trial balance at the end of 2019, A Trader finds that it shows a short debit of IQD 13700000. On checking the books, you find that:

(1) The Sales Book has been under cast by IQD 5000000.

(2) The Trial balance does not include the balance at bank of IQD 20000000.

(3) Discount allowed to customers IQD 300000 has not been posted to their accounts.

(4) A credit purchase of IQD 1000000 has not posted to the account of the supplier (creditor).

Required:

(1)Pass journal entries to rectify the errors.

(2) Prepare the Suspense A/c.

Solution:

N0.	Transactions	Dr. IQD	Cr. IQD
1	Suspense A/c Dr. To Sales A/c	5000000	 5000000
2	Bank A/c Dr. To Suspense A/c	20000000	 20000000
3	Suspense A/c Dr. To Customers A/c	300000	 300000
4	Suspense A/c Dr. To Creditors A/c	1000000	 1000000

Suspense A/c

Particulars	Amounts	Particulars	Amounts
To Balance (b/d)	13700000	By Bank	20000000
To Sales	5000000		
To Customers	300000		
To Creditors	1000000		
	20000000		20000000

Exercise (16)

The Trial Balance of Mr. Ali shows a difference of IQD 689000 in the debit column and is made to agree by putting this difference against a suspense account, later the following errors were discovered.

(1) Goods worth IQD 450000 were sold to Rahim on credit. This was recorded in the Sales Book but was not posted to Rahim's account in the ledger .

(2) Goods worth IQD 225000 were returned by Maher. The amount was credited to his account but was not entered in the Return Inwards Book.

(3) Saleem stores paid IQD 660000 but their account was credited for IQD 606000.

(4) Goods worth IQD 125000 purchased from Shareef were wrongly entered in the Sales Book.

(5) An amount of IQD 220000 owed by Hashim was omitted from the list of Sundry Debtors.

(6) The Purchase Book was overcast by IQD 152000.

Required: Rectify the above transactions and prepare a Suspense Account.

Journal proper

Date	Particulars	L.F	Debit IQD	Credit IQD
1	Rahim's A/c Dr To Suspense A/c (Sale of goods to Rahim on credit now posted to his account)		450000	450000
2	Returns Inwards A/c Dr To Suspense A/c (Returns inwards account was now debited for Returns inwards)		225000	225000
3	Suspense A/c Dr To Saleem stores (Under posting of cash paid by Saleem stores set right)		54000	54000
4	Purchases A/c Dr Sales A/c Dr To Shareef s A/c (purchase of goods from Shareef wrongly entered in the Sales Book now set right)		125000 125000	250000
5	Sundry Debtors A/c Dr To Suspense A/c (Hashim's debit balance Omitted from debtors set right)		220000	220000
6	Suspense A/c Dr To Purchases A/c (Purchases book overcast by IQD 152000 is set right)		152000	152000

Suspense A/c

Date	Particulars	L.F	Amount IQD	Date	Particulars	L.F	Amount IQD
	To Balance b/d		689000		By Rahim		450000
	To Saleem Stores		54000		By Returns inwards		225000
	To Purchases		152000		By Sundry Debtors		220000
			895000				895000

Terminology المصطلحات

Account	الحساب	Intangible Real A/cs	حسابات حقيقية غير ملموسة
Accounting cycle	الدورة المحاسبية	Journal	اليومية
Adjusted trial balance	ميزان مراجعة معدل	Journal entry	قيد اليومية
Adjustment	التسوية	Journal proper	يومية خاصة
Adjustment entries	قيود تسوية	Journalizing	التسجيل في اليومية
Analysis of transaction	تحليل المعاملة	Ledger	سجل الأستاذ
Association	هيئة ، جمعية	Ledger A/cs	حسابات الأستاذ
Balancing	الترصيد	Legal personal A/cs	حسابات شخصية قانونية
Bills Payable Book	سجل أوراق الدفع	Nominal A/cs	حسابات اسمية
Bills Receivable Book	سجل أوراق القبض	Payments	مدفوعات
Cash Discount	الخصم النقدي	Personal A/cs	حسابات شخصية
Cash Transactions	معاملات نقدية	Petty cash book	سجل النثرية
Classification	تصنيف	Posting	الترحيل
Closing entries	قيود الإقفال	Purchases Book	سجل المشتريات
Closing stock	مخزون آخر المدة	Purchases Returns Book	سجل مردودات المشتريات
Compound Entry	قيد مركب	Quantity Discount	خصم الكمية
Credit	دائن	Real A/c	حساب حقيقي
Credit Balance	رصيد دائن	Receipts	المقبوضات
Debit	مدين	Rectification of Errors	تصحيح الأخطاء
Debit Balance	رصيد مدين	Sales Book	سجل المبيعات
Decrease	نقصان	Sales Returns Book	سجل مردودات المبيعات
Errors	اخطاء	Simple Entry	القيد البسيط
Final A/cs	حسابات ختامية	Source documents	المستندات الأصلية(الأولية)
General journal	يومية عامة	Subsidiary books	الدفاتر المساعدة
General Rules	قواعد عامة	Suspense account	الحساب المعلق
Groups personal A/cs	حسابات للمجموعات	Tangible Real A/cs	الحسابات الحقيقية الملموسة
Impersonal A/cs	حسابات غير شخصية	Trade Discount	الخصم التجاري
Increase	زيادة	Transaction	المعاملة ، العملية
Individual Firm	منشاة فردية	Trial Balance	ميزان المراجعة
Opening stock	مخزون أول المدة	Natural personal A/cs	الحسابات الشخصية الطبيعية

QUESTIONS AND EXERCISES

A- QUESTIONS

1- What is meant by double entry system?

2- Explain the meaning of an account, and how is it related to the ledger?

3- Discuss the classification of an account and write an explanatory notes on
(a) Personal A/c (b) Impersonal A/c (c) Real A/c (d) Nominal A/c.

4- State the meaning, nature and the classification of the following A/cs. Capital A/c, Cash A/c, Stock A/c, Discount A/c, Building A/c, Interest A/c; Loss by fire A/c, Loan A/c, Audit fees A/c, Depreciation A/c, Debtor's A/c, and Copyright A/c.

5- Explain the rules of journalisation for debiting and crediting the personal A/c, Real A/c and nominal A/c.

6- What is a ledger? What is its interest?

7- What do you mean by an account? Give a specimen of an account?

8- What do you mean by balancing of an account?

9- Why are the accounts balanced?

10- How are the accounts balanced?

11- Tell whether each of the following accounts is an asset account, a liability account, or a stockholders' equity account:

No.	Accounts	No.	Accounts
a.	Notes Receivable	e.	Prepaid Rent
b.	Land	f.	Insurance Expense
c.	Dividends	g.	Service Revenue
d.	Mortgage Payable		

12- "Double-entry accounting refers to entering a transaction in both the journal and the ledger." Comment on this statement.

13- What are the rules of double entry for (a) assets, (b) liabilities, and (c) stockholders' equity?

14- Why are the rules of double entry the same for liabilities and stockholders' equity?

15- What are the eight steps in analyzing and processing a transaction?

16- What does a trial balance prove?

17- In recording entries in a journal, which is written first, the debit or the credit? How is indentation used in the journal?

18- What is the relationship between the journal and the ledger?

19- Describe each of the following terms:

No.	Terms	No.	Terms
a.	Account	f.	Journalizing
b.	Journal	g.	Posting
c.	Ledger	h.	Compound entry
d.	Book of original entry		

20- List the following six items in sequence to illustrate the flow of events through the accounting system:

No.	Events	No.	Events
a.	Analysis of the transaction	d.	Preparation of the financial statements
b.	Debits and credits posted from the journal to the ledger	e	Entry made in the journal
c.	Occurrence of the business transaction	f.	Preparation of the trial balance

21- Tell whether each of the following accounts is an asset, a liability, revenue, expense, or none of these:

No.	Accounts	No.	Accounts
a.	Accounts Payable	e	Supplies Expense
b.	Supplies	f	Accounts Receivable
c.	Dividends	g	Unearned Revenue
d.	Fees Earned	h	Equipment

22- Prepare **a table with columns of:**

(a) Serial No. of transactions.(b)Two accounts affected (c)Type of account (d)Whether debited or credited (e) Reasons, and fill in the necessary details for each of the following transactions:

(1) Started business with IQD 10000000.
(2) Deposited IQD 5000000 into bank.
(3) Purchased goods for IQD 4000000.
(4) Purchased (on credit) goods of IQD 8000000 from Mahmud.
(5) Sold goods for IQD 8000000.
(6) Paid rent IQD 500000.
(7) Received interest IQD 50000.
(8) Bought (on Credit) Furniture of IQD 500000 from Ibrahim .
(9) Withdrew IQD 50000 (from office cash) for personal use .
(10) Returned Furniture of IQD 100000 to Ibrahim.

23- **Prepare a table with columns headed (1) Personal (2) Real (3) Nominal from the fallowing accounts:-**

(1) Basrah Oil Company (2) Machinery (3) Al-Rasheed Hospital
(4) Building (5) Advertising Electricity charges (7) Land (8) Stationery
(9) Salaries (10) Interest.

24 -State with the help of a table which A/c should be debited and which A/c should be credited :- (with reasons).

(1) Started Business with IQD 30000000.

(2) Opened Bank A/c by depositing IQD 200000.

(3) Purchased Machinery for IQD 5000000.

(4) Paid for office stationery IQD 50000.

(5) Bank collected interest on our investment IQD 400000.

(6) Paid rent IQD 100 to landlord.

(7) Sold goods worth IQD 1000000.

(8) Cash purchases IQD 3000000.

(9) Cash withdrew for personal use IQD 100000.

25- Write the two accounts involved in each of the following transactions:-

(1) IQD 5000000 received from Mr. "X" to start business.

(2) Deposited IQD 5000000 in the Bank.

(3) Purchased Furniture for IQD 400000 from Mr.AL-Samawy and company.

26-From the following transactions find out the accounts involved and their nature:-

(1) Rent paid IQD 500000 .

(2) Furniture purchased for cash IQD 350000 .

(3) Paid to Mahmud IQD 2000000 .

27- State which account should be debited and which account should be credited from the following transactions

(1) Paid by cheque to Rahim IQD 1500000 .

(2) Cash withdrawn from the Bank IQD 750000 .

(3) Received cheque from Mohammed IQD 900000 .

28- State whether the following statements are True or False .

(1) Cash discount will not appear in the cash book .

(2) Purchases returns book is prepared with the help of credit notes .

(3) Drawings are a nominal account.

29- Pass journal entries in each of the following cases:-

(1) Payment made to Rajab IQD 1000000 and he allowed a cash discount of IQD 50000 .

(2) Cash received from Nasser IQD 800000 and allowed him IQD 50000 as discount.

30- Select the best answer:

(1) The amount brought in by the proprietor in the business should be credited to:

(a) Cash account. (b) Capital account. (c) Drawings account.

(2) The amount of salary paid to khaleel should be debited to :-

(a) Cash account. (b) Salary account. (c) The account of khaleel.

31- Prepare cash account from the following transactions:-

(1) 1.1.2020 Purchased goods for cash IQD 2000000

(2) 5.1.2020 Sold goods for cash IQD 20000000

(3) 25.1.2020 Paid salaries IQD 3000000

- Balance the account on 31.1.2020.

32- State whether the following statements are True or False "Give reasons":

(1) Real A/c is debited when something is going out from the business.

(2) Nominal A/c, is A/c of a person.

(3) Depreciation A/c is a nominal A/c .

(4) Goodwill A/c is a real A/c .

(5) Outstanding wages A/c is a nominal A/c .

(6) Buildings A/c is a personal A/c .

(7) Advertisement A/c is a nominal A/c .

(8) Debtor's A/c is a real A/c .

(9) Bad debts A/c is a personal A/c .

(10)Printing and stationery A/c is a nominal A/c .

33- What is the meaning of accounting errors?

34- Discuss the different types of accounting errors?

35- What is meant by suspense account?

36- Discuss the procedure for rectification of errors?

37-choose the correct answer:-

(1) The arithmetical accuracy of Book- Keeping is verified in the:-

(a)Balance Sheet. (b) Trial Balance.

(c) Cash account. (d) Ledger accounts

(2) Journal proper is used to record:-

(a) Adjustment entries. (b) Expenses paid in cash.

(c) Sale of goods for cash. (d) Discovering of errors.

(3) An error in a Trial Balance occurs while:-

(a) Preparing the final accounts. (b) Drawing a trial balance.

(c) Balancing the ledger accounts. (d) Recording the entries.

(4) The Trial Balance helps to discover:-

(a) Error of Omission. (b) Error of Compensation.

(c) Error of balancing. (d) Error of duplication.

(5) Trial Balance can be prepared only after:-

(a) The preparation of balance sheet.

(b) Journalisation.

(c) Extracting balances from the ledger accounts.

(d) Posting the entries.

(6) State whether the following statements are True or False:

(a) A sum of IQD 500000 paid as wages to carpenter for making furniture should be debited to repairs account.

(b) The expenses on carriage of an old Machine purchased for factory should be debited to Machine Account

(c) Compensating errors affect the agreement of the Trial Balance.

(d) Disagreement of the Trial Balance will affect the preparation of Final accounts.

(7) Match the columns by writing against the serial numbers of column "A" the appropriate letters from column "B".

No	"A"	No	"B"
(a)	principle Errors	1.	One mistake nullifies (يلغي) the wrong effect of another.
(b)	Complete omission Errors	2.	A transaction is not recorded at all books of original entry and in the ledge.
(c)	Omission Errors	3.	The same transaction is recorded twice in the original books of entry and also posting it to the ledger.
(d)	Compensating errors	4.	A transaction has been completely omitted to be recorded in the books of original entry and in the ledger
(e)	Duplication errors	5.	A transaction is recorded against the fundamental principles of accounting.

38- What are the subsidiary books?

39- Explain the usefulness of subsidiary books?

40-Define a Cash Book. Is it a subsidiary Book or a principal Book of accounts, Explain?

41-Explain the imprest system of petty Cash Book? How it differs from a Cash Book.

42- Choose the correct answer

(1) Cash account is credited by:

(a) Amounts collected cash. (b) Amount paid cash.

(c) credit purchases. (d) credit sales.

(2) If the total of debits .... the total of credits for(x) account, the balance is debit:

(a) Less than,(b) More than. (c) Equal. (d) We cannot determine.

(3)……….. is an individual accounting record of increases and decreases in specific asset, liability and owner's equity item.

(a) Accounting.(b) Transaction, (c) Ledger.(d) Account.

(4) Accounts that normally have credit balances are:

(a) assets, expenses, and revenues.

(b) assets, expenses, and owner's capital.

(c) assets, liabilities, and owner's drawings.

(d) Liabilities, Revenues and Capital.

(5) Which of the following is not part of the recording process?

(a) Analyzing transactions.

(b) Entering transactions in journal.

(c) Preparing a trial balance.

(d) Posting transactions.

(6) Transaction Analysis:

(a) Transfers ledger transaction data to the journal.

(b) is an optional step in the recording process.

(c) Transfers journal entries to ledger accounts.

(d) Normally occurs before journalizing.

(7)……….. is a list of accounts with their balances at a given time.

(a) Journal. (b) Ledger, (c) Trial balance. (d) Posting.

(8) In subsidiary books:

(a) Similar transactions are accumulated.

(b) Record the party that is not similar.

(c) General journal entries are recorded in general journal books at the end of the period.

(d) All of the above.

(9) All the following reveal in bills (notes) payable book except:

(a) Face value of the bill payable. **(b) maturity date.**

(c) client's (customer's) name, Payee.

(10) The credit side from general journal entry for credit purchases is:

(a) Purchases A/c. (b) Accounts payable.

(c) Accounts receivable. (d) Notes payable.

(11) The Company usually uses a petty cash to:

(a) pay for major expenses. **(b) pay for minor payments.**

(c) collect minor cash receipts. **(d) None of all the above.**

(12) All of the following books are credit books except:

(a) Cash book. (b) purchases returns book.

(c) credit sales book (d) Notes payable book.

43- Choose the correct answer

(1) The claims for outsiders on the entity are:

(a) Assets (b) liabilities (c) revenues (d) expenses

(2) If the capital balance at January 1, 2019 is IQD 6000000, new investments by the owner 4000000, and drawings 2000000, net income for 2019 is 3000000, and net owner's equity on December 31, 2019 is:

(a) 7000000 (b) 12000000 (c) 5000000 (d) 11000000

(3) Additions to fixed assets are:

(a) Revenue expenditures.(b) debited to a repair expense account.(c) capital expenditures.(d) debited to purchases account.

(4) The entry:

Purchases A/C Dr xx

To cash A/C xx

To Notes payable xx

(a) is a simple entry, (b) is a compound entry in debit side, (c) is a compound entry in credit side, (d) is a compound entry in the two sides.

(5) All the following are assets except:

(a) Cash. (b) equipment.(c) accounts receivables.(d) salaries expense.

(6) A machine, cost IQD 5000000 and the balance of accumulated depreciation IQD 4000000; sold cash by IQD 500000, there is:

(a) Gain IQD 500000.(b) loss IQD 500000.(c) neither gain nor loss. (d) The question is insolvable.

(7) ……….. is not recorded in accounting books.

(a) Trade discount. (b)Quantity discount.

(c) Sales discount. (d) Purchases discount

(8) Which of the following accounts has a debit normal balance?

(a) Sales. (b) Purchases returns, (c) purchases. (d) Capital.

(9) If Al-Warkaa' company granted quantity discount for its clients as follows:

1% 1 IQD -3000000 IQD

2%3000001 IQD -7000000 IQD

5% more than IQD 7000000

The sales for Abass are IQD 5000000 the quantity discount granted to Abass is:

(a) 70000 (b) 110000 (c) 50000 (d) 130000

(10) When goods are purchased on credit; the debit side of the entry is:

(a) Sales. (b) Accounts receivable.

(c) purchases. (d) Accounts payable.

(11) State whether the following statements are True or False.

a. Cash discount will not appear in the cash book.

b. Purchases returns are a debit account.

c. Sales returns are a credit account.

d. Drawings are a nominal account.

B- EXERCISES

1- Record the following transactions in the journal of Walled and prepare the necessary ledger accounts and balance them as on 30th April 2020.

(1) Walled brought cash IQD 10000000 Stock worth IQD 7000000 in to his business

(2) He purchased office Furniture IQD 200000.

(3) He bought stationery on credit from Mr. Ismail IQD 50000.

(4) He sold goods to Ahmed IQD 1000000.

(5) Received cash from Salam IQD 2000000.

(6) Paid commission to Osama IQD 25000

(7) He paid salaries for the Month of March IQD 500000.

(8) He exchanged furniture for goods worth IQD 200000.

2- Enter the following transactions in a Journal and prepare Ledger accounts. Also balance ledger accounts and draw a Trial Balance on March 2020 (Amounts in IQD thousands):-

March 1.Invested business with cash IQD 25000

March 5.Deposited in Arab Bank IQD 10000

March 8.Purchased goods for cash IQD 7000

March 12. Purchased goods from Arwa IQD 5000

March 15 Sold goods to Maher IQD 8000

March 16. Purchased goods from Omer IQD 12000

March 20. Cash paid to Arwa 4000

March 22.Received cash from IQD Maher 8000

March 23.Cash withdrawn from the Bank for office use IQD 5000

March 24.Purchases made by cheque IQD 2000

March 25.Cash sales IQD 15000

March 26.Cash Purchases IQD 8000

March 27.Paid salaries IQD 2000

March 29. Paid office rent IQD 1500

3- Journalize the following transactions and prepare necessary ledger accounts and draw a Trial Balance on month of January 2020 (Amounts in IQD thousands):-

Jan. 1. Started business with cash IQD 15000.

Jan.2. Sold goods for cash IQD 25000

Jan.4. Purchased goods from Abdu Rehman IQD 10000

Jan.6. Purchased goods IQD 5000

Jan.12. Cash withdrew from the Bank for Personal use IQD 12000
Jan.14.Paid to Abdu Rehman IQD 10000
Jan16.Sold goods to Hytham and received a cheque IQD 7800
Jan.18.The above cheque deposited in the bank
Jan.20 Purchased Furniture from Ashraf IQD 2000
Jan.22. Purchased goods from Ayman IQD 5000
Jan.25.Borrowed from Ayman IQD 7000
Jan27. Paid General expenses IQD 2000Jan. 28. Paid wages IQD 100
Jan30.Purchased Machinery for cash IQD 1500
Jan.31.Paid wages for the erection of new Machinery IQD 100

4- The following transactions are occurred during the first half of March 2020 for Al-Jabery stores:

March 1. The stores sold goods to Dahoud on account IQD 10,000000.
2 .Pay stores' rent IQD 1000000 cash.
3 .Purchased from Akram goods IQD 8000000 on credit.
4 .Dahoud paid from his account IQD 3000000.
5 .Purchased good cash IQD 10000000, 10% purchases discount.
6 .Sold goods cash IQD 20000000, 5% sales discount.
7 .Purchased goods from Ibrahim IQD 1000000 on account.
10 .Akram returned goods IQD 3000000.
11 .Paid telephone expense IQD 500000 cash.
12 .Dahoud paid IQD 2000000 cash.
13 .Purchased a car from Hyundai Co. IQD 5000000 on account.
15. Al-Jabery stores signed a promissory note for Hunday IQD 2000000 and paid the rest cash.

Required:

(1) Post the above cash transactions to cash book.
(2) prepare:
- Credit sales book.
- Sales returns book,
- Credit purchases book.
- Purchases returns book.

(3) Record the general journal entries for totals in (2) above.

Required: enter the above transactions into proper subsidiary books on Jan. 30 and posting into the Ledger.

5- Enter the following transactions in Subsidiary Books and post them into ledger and prepare a Trial balance on 30 - 6 – 2020.

- June 3 Purchased goods from Murad IQD 400000.

- June 5 Sold goods to Dawud IQD 420000.
- June 6 Returned goods to Murad IQD 40000.
- June 8 Kareem purchased goods from us IQD 200000.
- June 10 Received goods returned by Dawud IQD 25000 .
- June 12 Emad sold goods to us IQD 300000.
- June 13 Sold goods to Nayeem IQD 250000.
- June 18 Returned to Emad goods IQD 30000.
- June 20 Kareem returned goods IQD 20000.
- June 29 Kareem Purchased goods from us for IQD 100000.
- June 30 Saleem purchased goods from us IQD 75 000.

6- Record the following transactions in the proper subsidiary Books and prepare necessary ledger accounts:

- 2020 April 1 Purchased goods from Rasheed IQD 40000000.
- April 1 Rahman sold us goods IQD 500000.
- April 3 Bought goods from Arkan IQD 750000.
- April 4 Sent invoice to Waleed IQD 200000.
- April 5 Returned goods to Rahman IQD 100000.
- April 8 Purchased goods from Ashraf IQD 500000.
- April 10 Received an invoice from Mousa IQD 700000.
- April 14 Sent credit note to Ashraf for IQD 100000 for goods returned.
- April 17 Sold goods to Raheem IQD 1000000 less 10% Trade discount.
- April 25 Raheem returned goods to us IQD 250000.
- April 26 Returned goods to Ashraf IQD 50000.
- April 28 Purchased Typewriter IQD 250000.
- April 30 Bought goods from Ahmad for cash IQD 1200000.

7- Enter the following transactions in the proper subsidiary Books and prepare necessary ledger accounts:

- 2020 Feb. 1 Purchased goods from Ibrahim IQD 400000.
- Feb. 2 Bought goods from Ayman IQD 300000.
- Feb. 4 Sold goods to Ahmed IQD 250000.
- Feb. 6 Ahmed returned goods IQD 50000.
- Feb. 8 Sold goods to Muhand IQD 400000.
- Feb. 9 Salaman sold goods to us IQD 800000.
- Feb. 10Ahmed returned goods to us IQD 25000.
- Feb. 12 Sold goods to Talal IQD 1000000.
- Feb. 14 Bought goods from Nour IQD1350000.
- Feb. 15 Sold goods to Bilal IQD 500000.

- Feb. 15 Returned goods to Salaman IQD 50000.
- Feb. 25 Ayman received goods returned by us IQD 100000.

8- Enter the following transactions in Purchases Book. Sales Book and Returns Books of Ahmed &Co., and prepare necessary ledger accounts:

- 2020 March 1 Bought from Shafiq goods worth IQD IQD 2000000 less 5% trade discount.
- March 2 Bought office furniture for cash IQD 500000.
- March 3 Ibrahim sold to us goods IQD 400000.
- March 4 Sold goods for IQD 5000000.
- March 5 Sold goods to Mahmud worth IQD 500000.
- March 8 Made cash purchases IQD 250000.
- March 10 Returned goods to Ibrahim IQD 100000.
- March 15 Goods returned by Mahmud IQD 250000.
- March 20 Withdrew from the bank for meeting office expenses IQD 225000.
- March 25 Purchased goods from Ismail IQD 400000.
- March 28 Paid for advertisement IQD 50000.
- March 30 Sold goods to Eyman IQD 450000.

9- You are asked to record the following transactions in the subsidiary Books of Rassoul & Co., and post them to the respective ledger accounts:

- 2020 April 1 Purchased goods worth IQD 30000000 less 5% trade Discount from Amman Brothers
- April 2 invoiced goods worth IQD 15000000 less 5% trade Discount to Mohamed & Co.
- April 5 Returned goods to Bagdad Brothers IQD 3000000 (gross value) as they were defective.
- April 7 Raissan invoiced goods to us IQD 25000000 on 3% Trade Discount.
- April 14 Returned goods us by Mohamed & Co., IQD 2000000 (gross value).
- April 25 received an order for the supply of goods for IQD 20000000 from Rassoul &Co.
- April 28 placed a purchase order with Khalid & Co., for the supply of goods for IQD 10000000.

10- Enter the following transactions in the Cash Book for the month of March 2020, and post them into the ledger:

- 2020 March 1 Commenced business with IQD 10000000.

- March 5 Purchased goods from Rahman for cash IQD 5000000.
- March 9 Purchased goods from Nasser on credit IQD 3500000.
- March 11 Sold goods to Jameel for cash IQD 5000000.
- March 15 Purchased stationery for office IQD 50000.
- March 16 Paid to Abdul Nasser on account IQD 2000000.
- March 20 Received commission IQD 75000.
- March 24 Paid for advertisement IQD 50000.
- March 28 Paid for Rent IQD 250000.
- March 30 Paid for Salaries IQD 1000000.
- March 31 deposited in bank all cash after retaining IQD 20000 at hand.

11- The following is cash account

Cash A/c

Particulars	Amounts IQD	Particulars	Amounts IQD
Balance June, 2019	3000000	by Ahmad	1000000
To sales	2000000	by purchases	3000000
To capital	3500000	by telephone expenses	100000
To Falih	500000		

Required:

1 - Find the balance of cash account.

2- Record the above entries showed in cash account and then write their transactions.

3- Is Ahmad a supplier or a customer? Why?

4- Is Falih a supplier or a customer? Why?

12- Find out the Mistakes in the following journal entries and rearrange the wrong entries:-

No	Particulars	Dr	Cr
1	Cash A/c Dr To Rent A/c (Being the rent paid)	xx	 xx
2	Cash A/c Dr To Salman's A/c (Being the cash withdrawn for personal use)	xx	 xx
3	Capital A/c Dr To Drawings A/c (Being the cash withdrawn for personal use).	xx	 xx

- **Answers to questions (37):**

No	a	b	c	d
(1)		x		
(2)	x			

(3)		x		
(4)			x	
(5)			x	
(6)	false	false	false	true
(7)	3.	2.	4.	1.

-**Answers to question (42)**

No.	**a**	**b**	**c**	**d**
		x		
		x		
				x
				x
			x	
				x
			x	
				x
			x	
		x		
		x		
	x			

-**Answers to questions (43):**

No	**a**	**b**	**c**	**d**
(1)		x		
(2)				x
(3)			x	
(4)			x	
(5)				x
(6)		x		
(7)	x			
(8)			x	
(9)	x			
(10)			x	
(11)	False	False	False	True

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CHAPTER

(3)

ACCOUNTING FOR

FIXED ASSETS AND DEPRECIATION

1- Accounting for Fixed Assets

- **Definition of Assets**
- **Definition and Classification of Fixed Assets**
- **Determination of Fixed Assets Costs**
- **Disposal of Fixed Assets**
- **Intangible Assets**

2- Accounting for Depreciation

- **Definition of Depreciation**
- **Treatments of Depreciation**
- **Methods of Depreciation**
- **Questions and Exercises?**

CHAPTER

(3)

ACCOUNTING FOR

FIXED ASSETS AND DEPRECIATION

محاسبة الأصول الثابتة والاندثار

Financial accounting has basic elements such as assets, liabilities, owners' equity, revenues, expenses and net income (or net loss) which are related to the economic resources. Similarly, balance sheet which displays financial position of a business has basic elements such as assets, liabilities and owners' equity.

Most assets lose their value over time, in other words they depreciate, and must be replaced once the end of their useful life is reached. There are several accounting methods that are used in order to write off an asset's depreciation cost over the period of its useful life.

1- ACCOUNTING FOR FIXED ASSETS

A- Definition of Assets(**تعريف الأصول (الموجودات)**)

Financial Accounting Standards Board (FASB) defines assets in SFAC (6) as "**probable future and economic benefits obtained or controlled by a particular entity as a result of past transactions or events.**"

Accounting Principles Board" (APB) statement No. (4) defined assets as:

Economic resources of an enterprise that are recognized and measured in conformity with Generally Accepted Accounting Principles (GAPP) including certain deferred changes that are not resources.

According to the FASB, an asset has three essential characteristics:

(1) An asset embodies (تتضمن) a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows.
(2) A particular entity can obtain the benefit and control others access to it.
(3) The transaction or other event giving rise to the entity's right to or control of the benefit has already occurred.

If just one of these characteristics is missing (مفقـود), one may not recognize an accounting asset.

B- Definition and Classification of Fixed Assets

تعريف وتصنيف الأصول الثابتة

(1) Definition of fixed assets **تعريف الأصول الثابتة**

Fixed assets are assets that are held by a firm for use in the production or supply of goods and services, and not intended for sale with the ordinary course of business. Whether an asset is a fixed asset or not depends on the purpose for which it is held. For example, the land on which a company's factory is build is a fixed asset. However, if it plans to use land property development, it will be a current asset. The intention of the owner in holding an asset determines its classification as a fixed or current asset.

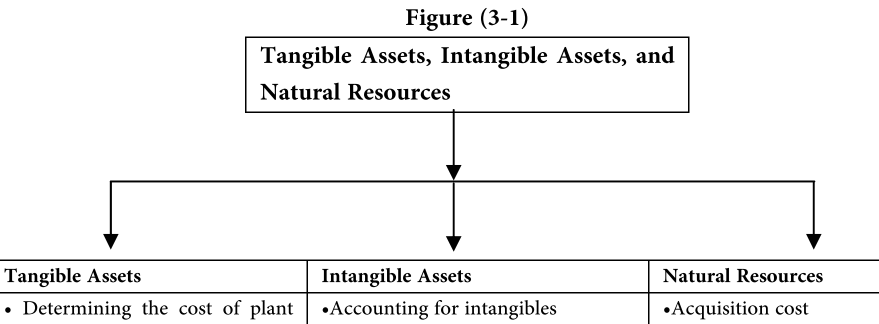
(2) Classification of fixed assets **تصنيف الأصول الثابتة**

Fixed assets also referred to as long-lived assets or long-term assets are often divided into tangible and intangible categories.

- **Tangible assets** (الأصول الملموسة (are fixed assets that have a physical existence and can be seen and felt (مرئي وملموس), and include land, buildings equipment, and vehicles.
- **Intangible assets** (الأصـول غـير الملموسـة), are fixed assets that haven't a physical existence. They represent legal rights or economic benefits. Trademarks and goodwill etc. are examples of intangible assets.
- **Nature Resources** (المـوارد الطبيعيـة), are fixed assets which must be depletion during a specific period, for example the Mines of gold, iron, coal etc.

The following figure shows the kinds of assets which are determined on it's the depreciation in different organizations:

Figure (3-1)



Tangible Assets	Intangible Assets	Natural Resources
• Determining the cost of plant asset • Depreciation •Expenditures during useful life •Plant asset disposal	•Accounting for intangibles •Research and development costs •Financial statements presentation	•Acquisition cost • Depletion

(3) Use of a fixed asset **استعمال الأصل الثابت**

During the life of plant assets, two important issues arise:

(a) How to allocate the cost amount to periods benefited? In other words, the selection of appropriate depreciation method of an asset.

(b) Accounting for costs incurred subsequent to acquisition: The continued use of fixed assets will require further outlays for their kept. Most of these costs are in the nature of maintenance and repairs and should be expensed as incurred or charged to overhead and hence to production, as appropriate.

(4) Cost of a fixed assets **كلفة الأصول الثابتة**

The cost of a fixed asset represents the sum of all costs necessary to make the asset ready for intended use (الاستعمال المرتقب).

◆ **Example:**

Machine was purchased for IQD 3000000 cash, IQD 100000 was paid as charges of wages and installation IQD 300000, the estimated total working capacity of machine is 150000 hours and salvage value is IQD 100000.

Required:- Compute the machine cost and pass the journal entry.

Solution:

(1) Cost of Machine = 3000000 + 100000 + 300000 = IQD 3400000

(2) Journal entry

Date	Particulars	Debit IQD	Credit IQD
	Machine A/c Dr. To Cash A/c	3400000	 3400000

C- Determination of Fixed Assets Costs **احتساب كلفة الأصول الثابتة**

The cost of a fixed asset comprises its purchase price, import duties and taxes of a purchase and any directly attributable cost (الكلفة المنسوبة) of bringing the asset to working condition for its intended use.

Directly attributable costs include items like stamp duty (رسم الطابع) and registration fees for transfer of title to land or building, commission for purchase, cost of site preparation, freight, installation costs such as foundations for plant, and professional fees.

As a rule, expenditures that result in future economic benefits are added as part of the assets cost, or capitalized, while expenditures that do not result in improving the service potential of the asset are charged to current revenue. For example, the customs duty paid on an imported machine is capitalized as it is a necessary part of the cost of the machine, but if the machine is damaged during installation, the cost of repairing it is not capitalized.

◆ **Example:**

Suppose the costs associated with a machine on January 18, 2020 are:

List price IQD 2000000; Trade discount IQD 100000; Taxes IQD 400000 Transit insurance IQD 12000; Freight IQD 40000; Installation charges IQD 120000.

The cost of acquisition of the machine would be computed as follows:

Date	Particulars	IQD	IQD
	List price Less: Trade discount	2000000 (100000)	
	Net price		1900000
	Add : Taxes Transit insurance Freight Installation charges	 400000 12000 40000 120000	 572000
			2472000

The Journal entry to record the acquisition of the machine is as follow:

Date	Particulars	Dr.	Cr
Jan. 18	Machinery A/c Dr. To Cash A/c (Acquisition of machine and incidental expenditures. مصاريف عرضية)	2472000	2472000

It is important to know how to differentiate between capital expenses and revenue expenses.

Table (3-1): Differences between capital expenses and revenue expenses.

No.	The point of comparison	Revenue expenses المصاريف الايرادية	Capital expenditures المصاريف الرأسمالية
1.	The period cover	One year or operation cycle whichever is longer	More than one year
2.	The amount of expense	Small amount compare to the asset's cost	Big amount comparing to asset's cost
3.	Accounting treatment	Charge on revenue as a period cost	It never appears in income statement at the end of the year, but capitalized
4.	The need	For continuation of asset's utility such as maintenance	Increase productivity or betterment of an asset

D- Disposal of Fixed Assets **التصرف بالأصول الثابتة**

When fixed assets wear out or become obsolete, they are no longer useful in a business. They are scrapped sold, or exchanged for new assets. On the disposal of an asset, the cost as well as the accumulated depreciation of the asset is removed from the books. Seldom is the disposal value of an asset equal to its book value, so it is usually necessary to recognize the gain or loss on disposal.

(1) Calculation of Gains or Losses on the Sale of Fixed Assets

احتساب مكاسب أو خسائر بيع الأصول الثابتة

When the fixed assets like machinery and furniture are sold, it is necessary for the business to calculate the gain or loss that results due to the disposal. The following entries are required in this connection:

◆ **Gain or Loss on the sale of assets is calculated as follow:**

No.	Particulars	IQD
- -	Amount realized on the sale of the asset Total Depreciation calculated on the sale of the asset till the date of its disposal	xxx xxx
-	Total Realization of the asset	xxx
-	Less Total Cost of the asset	(xxx)
-	Gain / Loss	xxx

Rule (قاعـدة): If the total realization is more than the total cost, there will be a gain and if the total realization is less than cost, there will be a loss.

Date	Particulars	IQD	IQD
	1. When the asset is sold: Cash A/c Dr. To Asset A/c (Being the asset sold and amount realized)	 xxx	 xxx
	2. For Depreciation to be provided from the beginning of the financial year to the date of sale: Depreciation A/c Dr. To Asset A/c (Being the Provision of depreciation till the date of sale)	 xxx	 xxx
	3. When there is a profit on the sale of the asset: Gain on the Sale Asset A/c Dr. To P & L A/c (Being the gain on the sale of the asset)	 xxx	 xxx
	4. When there is a loss on the sale of a particular asset: P & L A/c Dr. To Loss on the Sale of Asset A/c (Being the loss on the sale of the asset)	 xxx	 xxx

◆ **Example:**

Assume that an item of equipment acquired at cost of IQD 600000 was discarded on 1st, July, 2020. On 31st, December 2019, the balance of accumulated depreciation was IQD 450000. The depreciation expense on the every item at the date of discarding amounted to IQD 100000. The following entries should be passed to recording thereof:

Date	Particulars	Debit	Credit
1st July. 2020	Depreciation Expense. – Equipment A/c Dr. To Accumulated Depreciation - Equipment A/c (Being record current depreciation on equipment discarded)	100000	 100000
31st ,Dec. 2020	Accumulated Depreciation - Equipment A/c Dr. Loss Equipment disposal A/c Dr. To Equipment A/c (Being write off equipment discarded)	550000 50000	 600000
31st ,Dec. 2020	Profit and Loss A/c Dr. To Loss on equipment disposed A/c To Depreciation Expense - equipment A/c (Being transferring the result (Loss) of equipment disposal & depreciation expense. to P & L)	150000	 50000 100000

(2) Sale of Fixed Assets بيع الأصول الثابتة

When plant assets are sold, gain or loss on the disposal is computed by comparing the book value with the amount received from the sale. A sale

price in excess of the book value produces a gain; a sale price below the book value produces a loss. These gains or losses should be reported separately in the income statement or profit and loss account at the end of the period.

Rule: If the selling price is more than the book value of the asset, the transaction results is gain .Alternatively if the selling price is less than the book value of the asset, the result will be loss.

◆ **Example**:

Assume a car that cost IQD 20000000 and has a book value of IQD 4000000 is sold for IQD 5000000. The journal entry to record this disposal is as follow:

Date	Particulars	Dr.	Cr.
	Cash A/c Dr.	5000000	
	Accumulated Depreciation: Car A/c Dr.	16000000	
	To Car A/c		20000000
	To Gain on Disposal of Car A/c		1000000
	(To record sale of car at a price above book value).		

◆ **Example**:

Assume that the same car is sold for IQD 2000000. The journal entry, in this case, would be as follows:

Date	Particulars	Dr.	Cr.
	Cash A/c Dr.	2000000	
	Accumulated Depreciation: Car A/c Dr.	16000000	
	Loss on Disposal of Car A/c Dr.	2000000	
	To Car A/c		20000000
	(To record sale of car at a price below book value)		

Note: The disposal of a plant asset at a price equal to book value would result in neither a gain nor a loss.

◆ **Example**:

Assume that the same car is sold for IQD 4000000:

Date	Particulars	Dr.	Cr.
	Cash A/c Dr	4000000	
	Accumulated Depreciation: Car A/c Dr	16000000	
	To Car A/c		20000000

Exercise (1)

If a car costing IQD 4500000 was sold on 1st, April, 2020 by IQD 700000 cash. The balance of accumulated depreciation - car on 31st December, 2019 is IQD 3000000. The annual depreciation is IQD 1000000. The entries for sale in the journal are:

Date	Particulars	Debit	Credit
1st, April, 2020	Depreciation Expense - Car A/c Dr. To Accumulated Depreciation - Car A/c (Being record depreciation on car sold from 1st Jan to 1st April, 2020)	250000	 250000
1st, April, 2020	Accumulated Depreciation. - car A/c Dr. Loss on Car Sold (disposed) A/c Dr. Cash A/c Dr. To Car A/c (Being sold car by IQD 700000 cash (Less than book value)	3250000 550000 700000	 4500000
1st, April, 2020	Profit and Loss A/c Dr. To Loss on Car sold (disposed) A/c To Depreciation Expense. - car A/c (Close of Loss on car sold and depreciation expense of car in P & L A/c)	800000	 550000 250000

If the selling price is more than the book value of the car, the result is gain. This will be illustrated in the following exercise.

◆ **Example:**

Assume the same car in the previous exercise was sold by IQD 2000000 in cash. The entries which should be passed in journal are stated below:

Date	Particulars	Debit IQD	Credit IQD
1st, April, 2020	Accumulated Depreciation - Car A/c Dr. Cash A/c Dr. To Gain on Car sold (disposal) A/c To Car A/c (Being record depreciation on car sold)	3250000 2000000	 750000 4500000

At the end of the year, we should transfer gain on car sold to Profit and Loss A/c as follow:

Date	Particulars	Debit IQD	Credit IQD
31st, Dec. 2020	Gain on Car sold (disposal) A/c Dr. To Profit and Loss A/c (Transferred of Gain on Car sold to P & L A/c)	750000	 750000

E- Intangible Assets الأصول غير الملموسة

The purchase of an intangible asset is a special kind of capital expenditure. An intangible asset is long term, but it has no physical substance. Its value comes from the long-term rights or advantages it offers to its owner. The most common examples (patents, copyrights, leaseholds, leasehold improvements, trademarks and brand names, franchises, licenses, and goodwill) are described in Table below. Some current assets, such as accounts receivable and certain prepaid expenses, have no physical

substance, but they are not classified as intangible assets because they are short term. Intangible assets are both long term and nonphysical.

The accounting issues connected with intangible assets are the same as those connected with other long-lived assets. The Accounting Principles Board (APB), in its Opinion No. 17, lists them as follows:

(1) Determining an initial carrying amount.

(2) Accounting for that amount after acquisition under normal business conditions -that is, through periodic write-off or amortization- in a manner similar to depreciation.

(3) Accounting for that amount if the value declines substantially and permanently.

Table (3-2): Accounting for Intangible Assets

TYPE	Description	ACCOUNTING TREATMENT
Patent براءة اختراع	AN EXCLUSIVE RIGHT GRANTED BY THE GOVERNMENT FOR A PERIOD OF 17 YEARS TO MAKE A PARTICULAR PRODUCT OR USE A SPECIFIC PROCESS.	THE COST OF SUCCESSFULLY DEFENDING A PATENT IN A PATENT INFRINGEMENT SUIT IS ADDED TO THE ACQUISITION COST OF THE PATENT. AMORTIZE OVER THE USEFUL LIFE, WHICH MAY BE LESS THAN THE LEGAL LIFE OF 17 YEARS.
Copyright حقوق التأليف	AN EXCLUSIVE RIGHT GRANTED BY THE GOVERNMENT TO THE POSSESSOR TO PUBLISH AND SELL LITERARY, MUSICAL, OR OTHER ARTISTIC MATERIALS FOR A PERIOD OF THE AUTHOR'S LIFE PLUS 50 YEARS; INCLUDES COMPUTER PROGRAMS.	RECORD AT ACQUISITION COST AND AMORTIZE OVER THE USEFUL LIFE, WHICH IS OFTEN MUCH SHORTER THAN THE LEGAL LIFE, BUT NOT TO EXCEED 40 YEARS. FOR EXAMPLE, THE COST OF PAPERBACK RIGHTS TO A POPULAR NOVEL WOULD TYPICALLY BE AMORTIZED OVER A USEFUL LIFE OF TWO TO FOUR YEARS.
Leasehold المستأجر	A RIGHT TO OCCUPY LAND OR BUILDINGS UNDER A LONG-TERM RENTAL CONTRACT. FOR EXAMPLE, COMPANY A, WHICH OWNS BUT DOES NOT WANT TO USE A PRIME RETAIL LOCATION, SELLS OR SUBLEASES COMPANY B THE RIGHT TO USE IT FOR TEN YEARS IN RETURN FOR ONE OR MORE RENTAL PAYMENTS. COMPANY B HAS PURCHASED LEASEHOLD.	DEBIT LEASEHOLD FOR THE AMOUNT OF THE RENTAL PAYMENT, AND AMORTIZE IT OVER THE REMAINING LIFE OF THE LEASE. PAYMENTS TO THE LESSOR DURING THE LIFE OF THE LEASE SHOULD BE DEBITED TO LEASE EXPENSE.
Leasehold Improvements	IMPROVEMENTS TO leased PROPERTY THAT BECOME THE	DEBIT LEASEHOLD IMPROVEMENTS FOR THE COST OF IMPROVEMENTS,

TYPE	Description	ACCOUNTING TREATMENT
تحسينات المستأجر	PROPERTY OF THE LESSOR (THE PERSON WHO OWNS THE PROPERTY) AT THE END OF THE LEASE.	AND AMORTIZE THE COST OF THE IMPROVEMENTS OVER THE REMAINING LIFE OF THE LEASE.
Trademark, brand name العلامات والأسماء التجارية	A REGISTERED SYMBOL OR NAME THAT CAN BE USED ONLY BY ITS OWNER TO IDENTIFY A PRODUCT OR SERVICE.	Debit Trademark or Brand Name for the acquisition cost, and amortize it over a reasonable life, not to exceed 40 years.
Franchise, license الامتياز، الترخيص	A RIGHT TO AN EXCLUSIVE TERRITORY OR MARKET, OR THE RIGHT TO USE A FORMULA, TECHNIQUE, PROCESS, OR DESIGN.	Debit Franchise or License for the acquisition cost, and amortize it over a reasonable life, not to exceed 40 years.
Goodwill شهرة المحل	THE EXCESS OF THE COST OF A GROUP OF ASSETS (USUALLY A BUSINESS) OVER THE FAIR MARKET VALUE OF THE NET ASSETS IF PURCHASED INDIVIDUALLY.	Debit Goodwill for the acquisition cost, and amortize it over a reasonable life, not to exceed 40 years.

◆ Goodwill **شهرة المحل**

For accounting purposes, the term goodwill refers to the difference between the value of the business entity as a whole and the sum of the valuations of its identifiable parts, the increased earning power represented by goodwill is attributed to a variety of unidentifiable factors (i.e. superior management, more desirable location, substantial consumer following, etc.) which, by their very natures, would never appear on a company's books. There are two methods for determination the value of goodwill:

- capitalizing of the earnings رسملة الأرباح
- Total Evaluation التقييم الشامل

◆ **Example:**

AL-Rafidein Industries (صناعات الرافدين) is for sale, and its balance sheet shows the following: Total Assets, including cash, receivables, inventories and fixed assets, IQD 100000; Total Liabilities (all current), IQD 20000; Stockholders' Equity, IQD 80000. Annual earnings of IQD 15000 (after taxes and owners' salaries) are expected to continue indefinitely. Thus, the business can be valued as a whole, as a going concern, rather than according to the value of its collective assets.

Required: How much money need be invested now to earn IQD 15000 annually? If it is known that similar investments can earn a 10%

return, the necessary investment is computed by capitalizing the earnings of AL-Rafidein:

IQD 15000 ÷ 10% =IQD 150000.

As a result, AL-Rafidein's value as a going- concern (IQD 150000) differs from the sum of its identifiable parts (IQD 80000) by IQD 70000.

The term goodwill is widely used by businesspeople, lawyers, and the public to mean different things. In most cases goodwill is taken to mean the good reputation of a company. From an accounting standpoint, goodwill exists when purchased pays more for business than the fair market value of the net assets if purchased separately because the purchaser has paid more than the fair market value of the physical assets, there must be intangible assets.

Goodwill, as stated, should not be recorded unless it is paid for in connection with the purchase of a whole business. The amount to be recorded as goodwill can be determined by writing the identifiable net assets up to their fair market values at the time of purchase and subtracting the total from purchase price.

◆ **Example**:

Assume that the owners of company (A) agree to sell the company for IQD 11400000. If the net assets (total assets - total liabilities) are fairly valued at IQD 10000000, than the amount of the goodwill is IQD 1400000 (11400000 - 10000000). If the fair market value of the net assets is later determined to be more or less than IQD 10000000, an entry is made in the accounting recorders to adjust the assets to the fair market value. The goodwill would than represent the difference between the adjusted net assets and the purchase price of IQD 11400000.

Exercise (2)

AL-Bassmah Co. of furniture was purchased AL-Jamal Co. at 15/1/2020 for cash IQD 950000 (Amounts in 1000 Thousands) .The balance sheet of AL-Jamal Co. was showed as follow:

Assets: Cash 50000, Bank 250000, Debtors 350000, Inventory 700000, Fixed Assets 1950000.

Liabilities and Owner’s Equity: Current Liabilities 800000, Capital 1700000, Retained Earnings 800000.

The fair market value of AL-Jamal Co. is estimated by specialists as follow:

- Current Assets: Cash 50000, Bank 250000, Debtors 350000, Inventory 720000.

- Fixed Assets: Land 75000, Buildings 500000, Machines 400000, Equipment 50000.

  Required: Compute the goodwill.

Solution:

Total Assets = Current Assets + Fixed Assets

= 1370000 + 1025000 = 2395000

Fair market value of net Assets = Total Assets _ Current Liabilities

2395000 – 800000

1595000

Goodwill = Fair Market Value of Net Assets – Cost Price

1595000 – 950000

645000

2- ACCOUNTING FOR DEPRECIATION

محاسبة الاندثار (الإهلاك)

The term of depreciation is used to describe the expense that results from the loss of usefulness of an asset due to age, wear and tear, and obsolescence. This adjustment spreads (يوزع،يقسم) the cost of an asset over its useful life. Calculate the yearly amount, then the monthly. Some examples would be: office equipment, store equipment, automobile, delivery truck, etc. Land is never depreciated since it is considered permanent and is assumed to last forever (إلى الأبد). Depreciation only refers to the allocation of an asset's cost over its estimated useful life.

The costs are allocated in a rational and systematic manner as depreciation expense to each period in which the asset is used, beginning when the asset is placed in service. Generally this involves four criteria:

- cost of the asset,
- expected salvage value of the asset,
- estimated useful life of the asset, and
- a method of apportioning the cost over such life.

A- Definition of Depreciation **تعريف الاندثار**

The most accepted definition of depreciation is that it is a systematic and rational method of allocating costs to period in which benefits are received. The net result of charging depreciation is to bring down that value of an asset either to zero or to a very nominal figure as the asset becomes useless after some period.

Depreciation is the process of allocating to expense the cost of plant asset over its useful (service) life in a rational and systematic manner.

Depreciation is always recorded by debiting an expense account named Depreciation Expense and crediting an account called a "Contra Account" (means opposite or offsetting). The balance of this contra asset account is a credit the opposite of an asset account.

B- Treatment of Depreciation معالجة الاندثار

Once a business has decided which method of depreciation is to be used, and the rate to be applied, the next step is to record the entries in the accounting books. There are two different method of doing this accounting treatment: the direct Traditional method and indirect or modern method.

(1) Traditional Method (Direct Method) الطريقة التقليدية أو المباشرة

Here a fixed asset account is maintained for each class of assets, and the amounts provided as depreciation for each year are credited to the fixed asset account. A journal entry to be made for depreciation expense whenever needed is stated below:

Date	Particulars	Dr. IQD	Cr. IQD
31.12.2019	Depreciation Expenses A/c Dr To Fixed Asset account A/c (Being Annual depreciation charged)	xxx	 xxx
31. 12.2019	Profit and Loss A/c Dr. To Depreciation Expense A/c (Being Depreciation expense closed to profit and Loss)	xxx	 xxx

The Profit and Loss Account extract for each years, using the same example figures as before, will appear as:

Profit and Loss A/c For the year ending 31st, December 2019

Dr. Cr.

Particulars	IQD	IQD	Particulars	IQD	IQD
To Depreciation Expense on Machinery		xxx			

In Balance Sheet Statement, the fixed asset appears with net book value i.e. cost minus depreciation made up to the end of the period. Referring to the same example, the machine appears in the balance sheet as follows:

Balance sheet as at 31/12/20xx……..

Assets	IQD	Liabilities	IQD
Name of Asset (Machinery)			

(2) Modern Method (Indirect Method) الطريقة الحديثة أو غير المباشرة

This method uses three separate accounts:

(a) A fixed asset account, which records the cost of the asset when a acquired.

(b) Accumulated Depreciation Account, which records the amount of depreciation set aside year since the date of acquisition.

(c) Depreciation Expense Account which shows the fall in the value of the asset occurred within a year.

Depreciation is recorded by charging expense and crediting accumulated depreciation, a contra - asset account.

The entry passed in journal according to this method is as follows:

Date	Particulars	Dr. IQD	Cr. IQD
31/12	Depreciation Expense A/c Dr.	xxx	
	To Accumulated Depreciation A/c		xxx

At the end of the period, the depreciation expense is charged to the Profit and Loss Account as follows:

Date	Particulars	Dr. IQD	Cr. IQD
31/12	Profit and Loss A/c Dr.	xxx	
	To Depreciation Expense A/c		xxx

In the financial statements of the business entity, the depreciation expenses account is closed in the profit and Loss account. The balance sheet also shows the fixed asset in historical cost and net book value (i.e. historical cost minus the balance of accumulated depreciation) as follows:

Balance Sheet as at 31/12/20xx.

Assets	IQD	Liabilities	IQD
Fixed Assets (cost)	xxx		
(-) Accumulated Dep.	(xxx)		

Presentation of fixed assets in the balance sheet:

Particulars	Amount	Amount
Gold mine	15000000	
less / a cumulated depletion	(5000000)	10000000
Equipments	3500000	
less / accumulated depreciation	(1500000)	2000000
Total property, plant, and equipment		12000000
Intangibles		
Goodwill		3000000
Total		15000000

- Important Notes ملاحظات مهمة

(1) All necessary costs incurred in making the fixed assets ready for its intended use are debited to the asset account.

(2) Plant asset disposal:

Date	Particulars	Debit	Credit
	A- **Retirement(إبعاد الأصل):**		
	Accumulated depreciation Machine A/c Dr.	10000	
	To Machine A/c		10000
	B- **Sale of plant asset at gain:**		
	Cash A/c Dr.	5000	
	Accumulated depreciation A/c Dr.	15000	
	To Machine A/c		17000
	To Gain on disposal A/c		3000
	c- Exchange of plant asset at loss	20000	
	Machine A/c (new) Dr.	15000	
	Accumulated dep. A/c Dr.	5000	
	Loss on disposal A/c Dr.		
	To machine (old) A/c		30000
	To cash A/c		10000

(3) Good will is the value of all favorable attributes that relate to a business. Good will is recorded only when there is an exchange transaction that involves the purchase of an entire business.

◆ **Example:**

Nader Co. had a plant cost of 600000 IQD was discarded on 1st July 2020. On 31st December 2019, the balance of accumulated depreciation was 450000 IQD .The depreciation expenses at the date of discarding amounted to 100000 IQD.

Required:- Record the journal entries on the year 2020 and closing entries.

Solution:

Date	Particulars	Dr.	Cr.
1/7/2020	Depreciation exp. of Plant A/c	100000	
	To Accumulated Depreciation of Plant A/c		100000
1/7/2020	Accumulated Depreciation of Plant A/c Dr.	550000	
	Loss of capital " disposal" A/c Dr.	50000	
	To plant A/c		600000
31/12/2020	Profit and Loss A/c Dr.	150000	
	To Loss Capital "disposal" A/c		50000
	To Depreciation exp. of Plant A/c		100000

C- Determination Methods of Depreciation طرق احتساب الاندثار

There are several methods for calculating depreciation, generally based on either the passage of time or the level of activity (or use) of the asset. The following are the main methods of providing depreciation:

1) Fixed Percentage on original cost or straight line method or equal installment method.

2) Declining Balance (DB) method or (The Diminishing Balance Method or Reducing Balance Method)
3) Sum -of-the- years - digits **(SYD)** Method.
4) Units of production method (units of activity)
5) Machine - hour rate Method.
6) Revaluation Method.
7) Depletion Method.

(1) Straight - line (SL) method or Fixed Installment Method

طريقة القسط الثابت

Under this Method a fixed sum is written off every year by using the total cost of the asset. At the end of the useful life of the asset, the balance in that asset account will be equal to its residual value (القيمة المتبقية).

An equal amount of depreciable cost is allocated to each period, by means of this formula:

[Historical Cost (HC) - Salvage Value(SV) ÷[Estimated Useful Life (EUL)

◆ **Example**:

ABC Company purchased a machine for IQD 10000 estimated useful life 5 years, no salvage value. The company use straight depreciation method.

Required: Find the amount of depreciation for each year of the useful and record a journal entry for depreciation by using in direct method.

Solution:

SL. dep. = HC-SV ÷ EUL

10000 - 0 ÷ 5 = 2000 IQD

Date	Particulars	Dr.IQD	Cr.IQD
	Depreciation expense, Machines A/c Dr.	2000	
	To Accumulated depreciation, Machines A/c		2000

The table below summarized the book value and accumulated depreciation at the end of each year.

Year	Cost	Depreciation	Accumulated Depreciation	Book Value
1	10000	2000	2000	8000
2	10000	2000	4000	6000
3	10000	2000	6000	4000
4	10000	2000	8000	2000
5	10000	2000	10000	Zero

Once rate of depreciation is derived it can be applied every year to calculate amount of depreciation as follows:

1) When asset is used for full year:

Depreciation Amount = Original Cost × Rate of Depreciation.

2) When asset is used for part a year:

Depreciation Amount = Original Cost × Rate of Depreciation ×Period of Use.

- **Advantages: المزايا**

1) It is a simple method to understand.
2) The value of the asset at the end will be scrap value.
3) The annual charge to profit and loss account is same for all the years.

- **Disadvantages: العيوب**

1) It is complicated when new asset is purchased during a year, as new calculations are to be made for the new asset.
2) There is no provision for the replacement of the asset when it is worn – out (بال، متهرئ).
3) This method does not take into account seasonal fluctuations like booms (فترة رواج) or depression or number of fluctuations.

Exercise (3)

Ismail brothers acquired a machine on 1st July 2019 at a cost of IQD 28000 and spent IQD 2000 on its repairs and erection. The firm writes off depreciation at 10% of the original cost every year. The books are closed on 31st December of each year.

Required: Show the machinery account and Depreciation account for the first five years. Also show how the annual Depreciation will be transferred to Profit and Loss Account every year assuming that the annual accounts are closed on 31st December every year.

Machinery Account

Date	Particulars	IQD	Date	Particulars	IQD
1/7/2019 1/7/2019	To Cash To Cash	28000 2000	31/12/2019	By Depreciation (30000 x 10% x6/12) By Balance c/d	1500 28500
		30000			30000
1/1/2020	To Balance b/d	28500	31/12/2020 31/12/2020	By Depreciation (30000 x 10% x 1) By Balance c/d	3000 25500
		28500			28500
1/1/2021	To Balance b/d	25500	31/12/2021 31/12/2021	By Depreciation (30000 x 10% x 1) By Balance c/d	3000 22500
		25500			25500
1/1/2022	To Balance b/d	22500	31/12/2022	By Depreciation	3000

Date	Particulars	IQD	Date	Particulars	IQD
			31/12/2022	(30000 x 10% x 1) By Balance c/d	19500
		22500			22500
1/1/2023	To Balance b/d	19500	31/12/2023 31/12/2023	By Depreciation (30000 x 10% x 1) By Balance c/d	3000 16500
		19500			19500

Depreciation **A/c**

Date	Particulars	IQD	Date	Particulars	IQD
31/12/2019	To Machinery A/c	1500	31/12/ 2019	By P & L A/c	1500
		1500			1500
31/12/2020	To Machinery A/c	3000	31/12/2020	By P & L A/c	3000
		3000			3000
31/12/2021	To Machinery A/c	3000	31/12/2021	By P & L A/c	3000
		3000			3000
31/12/2022	To Machinery A/c	3000	31/12/2022	By P & L A/c	3000
		3000			3000
31/12/2023	To Machinery A/c	3000	31/12/2023	By P & L A/c	3000
		3000			3000

Profit and Loss A/c

Date	Particulars	IQD	Date	Particulars	IQD
31/12/2019 31/12/2020 31/12/2021 31/12/2022 31/12/2023	To Depreciation To Depreciation To Depreciation To Depreciation To Depreciation	1500 3000 3000 3000 3000			

2- Declining Balance (DB) method or (The Diminishing Balance Method or Reducing Balance Method) طريقة القسط المتناقص

Under this method a fixed depreciation rate is applied every year to the book value (i.e. declining balance) of the asset on the diminishing balance of the account.

DB depreciation = Fixed Depreciation Rate x (Cost - Accumulated Depreciation)

Sometimes, the double of straight line rate is used.

Every year depreciation can be calculated as follows:

1) On the balance brought down in the beginning of the year.

Depreciaion Amount = Opening Balance of Asset x Rate of Depreciation.

2) On the new purchase made during the current year:

Depreciation Amount = Original cost of new purchases x Rate of Depreciation x period of use in current year.

- **Advantages المزايا**

1) The charge to profit and loss A/c over the life of the asset remains equal, considering the charges for repairs and renewals.
2) There is no need for fresh calculations in case there is an addition to the asset, unless such addition is made in the middle of the year.
3) It is also a simple method to operate.

- **Disadvantages العيوب**

1) The book value of an asset will never become zero.
2) It is quite difficult to ascertain correct rate of depreciation.
3) It does not consider the question of interest on the capital outlay involved.

◆ **Example:**

A machine is purchased at IQD 10000 the useful life is 10 year the company decided to use double declining balance method.

Required: Find depreciation for the first three years.

Fixed depreciation rate = 1÷N = 1 ÷ 10 = 10%

Double declining rate = 2x10% = 20%

Year	Book value at the beginning of the year	Depreciation rate	Depreciation Amount	Book value at the end of the year
1	10000	20%	2000	8000
2	8000	20%	1600	6400
3	6400	20%	1280	5120

The cumulated deprecation at the end of the second year finds out the balance of accumulated depreciation at the end of the year?

➢ Find depreciation amount for the next three years?

Exercise (4)

A firm purchased on 1st January 2020 equipment for 120000 IQD, on 1st July in the same year. Additional equipment was purchased costing 150000 IQD .The useful life is 5 years for the equipment which purchased on 1st January, and 4 years for the equipment purchased on July.

Required: assume the company use double declining balance method.

(1) Compute the depreciation expenses for the equipment which purchased on January for the five years.

(2) Compute the depreciation expenses for equipment which purchased on July for the first three years.

Solution:

(1) The equipment which purchased on 1st January 2020.

Fixed Depreciation Rate = 1/n = 1/5 = 20%

Double Declining rate = 2 x 20% = 40%

Year	Book value at the beginning of the year	Depreciation Rate	Depreciation amount	Book value at the end of the year
1	120000	40%	48000	72000
2	72000	40%	28800	43200
3	43200	40%	17280	25920
4	25920	40%	10368	15552
5	15552	40%	6220,8	9331,2

(2) The equipment which purchased on 1st July 2020.

Fixed Depreciation Rate = 1/n = 1/4 = 25%

Double Declining rate = 2 x 25% = 50%

Year	Book value at the beginning of the year	Depreciation Rate	Depreciation amount	Book value at the end of the year
1	150000	50%	37500	112500
2	112500	50%	56250	56250
3	56250	50%	28125	28125

3- Sum -of-the- Years - Digits (SYD) **طريقة مجموع أرقام السنين**

A decreasing fraction is applied each year to the depreciable cost (i.e. HC - SV). The denominator of the fraction is obtained by adding the number of years of estimated useful life.

◆ **Example:**

Assume that the estimated useful life for a fixed asset is 4 years and its cost IQD 12000; the salvage value is IQD 2000.

Required :- Compute the depreciation for the four years.

Solution:

The denominator is 4 + 3+ 2 + 1=10

Explanation	Calculation	IQD
Depreciation for the first year	(12000 - 2000)× (4÷ 10)	4000
Depreciation for the second year	10000×(3÷ 10)	3000
Depreciation for the third year	10000×(2÷ 10)	2000
Depreciation for the fourth year	10000×(1÷ 10)	1000
H C - S V		10000
+ Salvage value		2000
Historical Cost		12000

The accounting treatment by the indirect method for the first year as follow:

Date	Particulars	Dr. IQD	Cr. IQD
	Depreciation expense A/c Dr.	4000	
	To Accumulated Dep. A/c		4000

At the end of the first year:

Date	Particulars	Dr. IQD	Cr. IQD
	P & L. A/c Dr.	4000	
	To Depreciation expense A/c		4000

Exercise (5)

Walled Company bought furniture on 1/1/2020 by 400000 IQD cash ,estimated useful life 5 years , the salvage value 10000 IQD .

Required :- Compute the depreciation for the 5 years and prepare the journal entries, for the year 2020, assume :-

1) The company use Straight-Line depreciation method.
2) The company use Sum of the Years Digits (S Y D) method.

Solution:

(1) **First Assumption**: The Company use straight –line depreciation method.

S.L Depreciation = (Historical Cost – Salvage Value) ÷ Estimated useful life.

(400000 – 10000) ÷ 5 years = 78000 IQD / year

Date	Particulars	Dr. IQD	Cr. IQD
1/1/2020	Furniture A/c Dr. To cash A/c	400000	 400000
31/12/2020	Depreciation A/c Dr. To Accumulated Depreciation A/c	78000	 78000
31/12/2020	P. & L. A/c Dr. To Depreciation A/c	78000	 78000

(2) **Second Assumption:** The company use Sum of the Years Digits (S Y D) method.

The denominator is : 5+4+3+2+1 = 15

No	Explanation	Calculation	IQD
1	Depreciation of the first year (2020)	(5/15)x(400000-10000)	130000
2	Depreciation of the second year (2021)	(4/15)x(400000-10000)	104000
3	Depreciation of the third year (2022)	(3/15)x(400000-10000)	78000
4	Depreciation of the fourth year (2023)	(2/15)x(400000-10000)	52000
5	Depreciation of the fifth year (2016)	(1/15)x(400000-10000)	26000
		H C – S V	390000
		+ S V	10000
		H C	400000

The entries for the first year:

Date	Particulars	Dr.IQD	Cr.IQD
31/12/2020	Depreciation A/c Dr. To Accumulated Depreciation A/c	130000	 130000
31/12/2020	P. & L. A/c Dr To Depreciation A/c	130000	 130000

4- Units of production method (units of activity) طريقة وحدات الإنتاج

Depreciation per Unit= [Cost – Salvage] ÷ Estimated Units of Production

◆ **Example:**

A company purchased a car at IQD 12000 its salvage value is IQD 2000, the number of kilometers estimated during the useful life is 100000 km.

Required: Compute depreciation amount for the first two years if it went 20000 km, 15000 km respectively.

Solution:

Depreciation per kilometer (12000 - 2000) ÷ 100000 = 0.10 IQD per km.

Depreciation for the first year = 20000 × 0.10 = 2000 IQD

Depreciation for the second year = 15000 × 0.10 = 15000 IQD

5-Machine Hours Rate Method طريقة معدل ساعات الماكنة

The total operating hours estimated for the duration of the effective working life of the machine are divided into the cost of the machine less estimated scrap value.

Depreciation Per hour = (Cost of the Machine - Scrap Value)÷ Machine Hours

- Advantages: المزايا

(1) This is highly suitable for factories where production is based on the hours of work of the machines, e.g. cotton textiles, Jute etc.

(2) This is the simplest and scientific Method of Depreciation of Machineries in factories working in shifts and where strikes and lockouts are expected on account of labor unrest (اضطراب).

◆ **Example:**

Abdul- Rahman & Co., acquired a machine on 1st April 2019 at a cost of IQD 30000, the cost of installation being IQD 10000, It is expected that the life of the machinery will be the 20000 hours, the machine worked for 1500 hours During the year 2019, and the machine worked for 2500 hours during 2020.

Required: Write up the machinery account for 2019 and 2020(Amounts in IQD Thousands).

Solution:

Cost of machine = 30000 + 10000 = IQD 40000

Depreciation per hour= Cost Machine ÷Machine hours

(30000 + 10000)÷ 20000 = IQD 2 per hour

Depreciation for 2019 = 1500 x 2 = IQD 3000

Depreciation for 2020 = 2500 x 2 = IQD 5000

Machinery Account

Date	Particulars	IQD	Date	Particulars	IQD
1/4/2019	To Cash (30000 + 10000)	40000	31/12/2019 31/12/2019	By Depreciation (1500 x 2) By Balance c/d	3000 37000
		40000			40000
1/1/2020	To Balance b/d	37000	31/12/2020 31/12/2020	By Depreciation (2500 x 2) By Balance c/d	5000 32000
		37000			37000

5- Revaluation Method (التقدير) طريقة إعادة التقييم

Loose tools, the stocks of which fluctuate from period to period rather arbitrarily and cattle, hourses etc., the value of which depends on knowledgeable judgement, are usually revalued each year by someone competent to do so.

Depreciation = Opening balance of every year - Closing balance of every year.

- Advantages المزايا

1. Simplest method to understand.
2. Highly suitable for certain special types of assets like loose tools, livestock, crates, packages etc.

- Disadvantages العيوب

1. Revaluation is to be made by the individuals and the estimates of individuals may go wrong.
2. Revaluation is based on market value which is not stable.

◆ **Example:**

A firm started is business in 2017. The bottles bought and their estimated values in various years are given below:

Particulars	2017 IQD	2018 IQD	2019 IQD
Bottles bought	12000	7200	9900
Estimated Value on 31st Dec	9400	9300	11000

Required : Prepare the bottles account from 2018 to 2019.

Solution:

Bottles Account

Date	Particulars	IQD	Date	Particulars	IQD
1 /1/2017	To cash	12000	31/12/2017	By Depreciation By Balance c/d	2600 9400
		12000			12000
1 /1/2018 1 /1/2018	To Balance b/d To cash	9400 7200	31 /12 /2018	By Depreciation By Balance c/d	7300 9300
		16600			16600
1 /1/2019 1 /1/2019	To Balance b/d To cash	9300 9900	31/12/2019	By Deprecation By Balance c/d	8200 11000
		19200			19200
1 /1 /2020	To Balance b/d	11000			

6- Depletion Method **طريقة الاضمحلال**

This method is also called as **"Out-Put Method**". It is highly suitable for physical assets like mineral deposits oil and gas resources. Depletion for each unit extracted is determined as follows:

Depletion per unit = [Acquisition cost -Residual Value] ÷ (Estimated life in terms of production units).

◆ **Example:**

A Mine was acquired on 1st July 2018 at a cost of IQD 1000000, it was expected that it would yield 200000 tonnes of coal. The actual output was.

2018 20000 tonnes

2019 30000 tonnes

2020 40000 tonnes

Required: Write up the Mine Account for three years using the depletion method of depreciation.

Solution:

Depletion per tonne=[Cost of Mine- Residual Value]÷ Estimated Output

= (1000000 – Zero) ÷ 200000

Depletion per tonne= IQD 5 per tonne

Depletion for 2018 = 5 x 20000 tonnes = IQD 100000 and so on for other years.

Dr. Mine Account Cr.

Date	Particulars	IQD	Date	Particulars	IQD
1/1/2018	To Cash	1000000	31/12/2018 31/12/2018	By Depletion (20000 x 5) By Balance c/d	100000 900000

		1000000			1000000
1/1/2019	To Balance b/d	900000	31/12/2019 31/12/2019	By Depletion (30000 x 5) By Balance c/d	150000 750000
		900000			900000
1/1/2020	To Balance b/d	750000	31/12/2020 31/12/2020	By Depletion (40000 x 5) By Balance c/d	200000 550000
		750000			750000

Terminology المصطلحات

Accounting Principles	مبادئ محاسبية	Incidental expenditures	مصاريف عرضية
Accumulated Depreciation	الاندثار المتراكم	Installation charges	مصاريف التأسيس
Acquisition cost	كلفة الاقتناء	Installation costs	تكاليف التأسيس
Advantages	المزايا	Intangible assets	اصول غير ملموسة
Book value	القيمة الدفترية	Leasehold	المستأجر
Brand name	اسم تجاري	Leasehold improvements	تحسينات المستأجر
Capital expenditures	مصاريف رأسمالية	License	الترخيص
Capitalizing	رسملة	Loss	خسارة
Copyright	حقوق التأليف	Machine Hours Rate	معدل ساعات الماكنة
Declining Balance	رصيد متناقص	Nature Resources	موارد طبيعية
Depletion	الاضمحلال	Obsolescence	التقادم
Depreciation	الاندثار	Original Cost	كلفة اصليه
Diminishing Balance	الرصيد المتناقص	Patent	براءة اختراع
Disadvantages	العيوب	Physical assets	اصول مادية
Disposal	التصرف او البيع	Plant assets	اصول ثابتة
Earnings	الأرباح	Rate of Depreciation	معدل الاندثار
Economic resources	الموارد الاقتصادية	Reducing Balance	رصيد متناقص
Estimated life	العمر التقديري	Research and development	البحث والتطوير
Estimated Useful Life	الحياة المفيدة	Residual Value	القيمة المتبقية
Evaluation	التقييم	Retirement	استبعاد
Expenditures	المصاريف	Revaluation	إعادة التقييم
Fair Market Value	القيمة السوقية العادلة	Revenue expenses	مصاريف ايرادية
Financial Accounting	المحاسبة المالية	Rule	قاعدة
FASB	مجلس المعايير المحاسبية	Salvage value	قيمة انقاض
Fixed assets	الأصول الثابتة	Straight - line	قسط ثابت
Fixed Installment	القسط الثابت	Sum-of-the-Years- Digits	مجموع أرقام السنين
Franchise	الامتياز	Tangible assets	أصول ملموسة
Gain	المكتسب	Trademark	علامة تجارية
GAAP	المبادئ المقبولة عموما	Units of production	وحدات الإنتاج
Goodwill	شهرة المحل	Wear and Tear	يبلى بالاستعمال

QUESTIONS AND EXERCISES

A- Questions

1- Choose the correct answer of the following statements:-

(1) Prepaid rent is account:

(a) a revenue (b) an expense (c) a liability (d) an asset.

(2) All of the following are assets except:

(a) Prepaid expenses (b) Notes receivable (c) Marketable securities

(d) Interest revenue.

(3) The amount collected when asset is disposed is:

(a) Depreciation amount (b) the cost of fixed asset (c) useful life (d) salvage value.

(4) All of the following are assets except:

(a) Inventory (b) Buildings (c) salaries expense (d) prepaid expenses.

(5) The claims for outsiders on the entity are:

(a) Expenses (b) revenues (c) liabilities (d) assets.

(6) When a computer is purchased on credit, we credit:

(a) Computer (b) Accounts payable (c) purchases (d) Notes receivable.

(7) All the following accounts have debit normal balance except:

(a)Gains (b) expenses (c) assets (d) losses.

(8) An office supply is accounted:

(a) an asset (b) an expense (c) a revenue (d) a liability.

2- Choose the correct answer of the following statements

(1) Expenses incurred in the formation of a business are called (a) start-up costs, (b) organization costs, (c) beginning costs, (d) official costs.

(2) The difference between the value of the business as a whole and the values of its identifiable parts is called (a) goodwill, (b) negative goodwill, (c) appreciation, (d) unrealized gain.

(3) The exclusive right to conduct particular activities in a given area is called (a) an exclusive right, (b) a lease, (c) a covenant, (d) a franchise.

(4) Goodwill should be written off (a) over 5 years, (b) over 10 years, (c) over period benefited, not exceeding 40 years, (d) against retained earnings.

(5) A covenant not to compete means that (a) the buyer will have to live in a different territory, (b) the seller will not engage in the same business in that territory for a specified period, (c) a contract has been signed, {d) the seller will never open the same type of business.

3- State whether each of the following statements is "True or false":-

(1) Assets are always valued at market price as per the basis of the going concern concept.

(2) It is not necessary to depreciate a building if is not in use.

(3) Depreciation increases the value of asset as well as increases the profit of the year.

(4) Installation charges incurred on machinery is capital expenditure.

(5) The balance of all the prepaid expenses in the ledger will be credit.

(6) An expenditure which will benefit the future period is capital expenditure.

(7) Adjustment entries are made at the time of closing the business every day.

(8) Freehold land never depreciation.

4- What is depreciation? Explain the causes of depreciation.

5- Explain the various methods of depreciation.

6- What are the basic factors for calculation of depreciation?

7- Write short notes on :

- Revaluation method of Depreciation.
- Machine Hour Rate Method.
- Depletion Method of Depreciation

8- **Write** a short note on Depreciation Accounting dealing with the two most popular methods of Depreciation?

9- **Discuss** the disposal methods of fixed assets?

10- Choose the correct answers:

(1) Samawah refinery purchased a machine and the following costs were incurred:

- Cash price IQD 30000
- Insurance during transit IQD 2000
- Installation IQD 1000

The amount should be recorded at the cost of the machine is:

(a) 30000 (b) 32000 (c) 33000 (d) none of all the above.

➢ If the cost of equipment is IQD 56000 purchased on January 1, 2017, the estimated salvage value is IQD 6000 and an estimated useful life is 5 years. Answer the questions (2), (3):

(2) If straight line method of depreciation is used the balance of accumulated depreciation at December 31, 2019 is:

(a) 10000 (b) 20000 (c) 11200 (d) 22400

(3) If we record depreciation for the year 2017, we debit:

(a) Deprecation expense IQD 10000

(b) Accumulated depreciation IQD 10000

(c) Equipment IQD 10000 (d) Deprecation expense IQD 20000

(4) Deprecation is the process of:

(a) Cost allocation (b) Valuation (c) Cash accumulation (d) None of all the above.

(5) The amount collected when the asset is disposed is…………..

(a) The cost of fixed asset (b) Useful life (c) Salvage value (d) Depreciation amount

(6) The cost of equipment purchased is IQD 60000, fixed Depreciation rate 20%. The depreciation amount of the second year if the double declining balance method is used is:

(a) 14400 (b) 12000 (c) 24000 (d) 18000

11- Point out correct alternatives:

(1) Depreciation arises from.

(a) Physical wear and tear.

(b) Fall in the value of money.

(c) Fall in the market value of asset.

(d) Fall in the life of asset.

(2) Depreciation is a process of

(a) Valuation (b) Allocation

(c) Both valuation and allocation (d) None of these

(3) The main objective of providing depreciation is:

(a) To calculate true profit.

(b) To reduce tax burden.

(c) To show the true financial position in the balance sheet.

(d) To provide funds for replacement of fixed assets.

(4) Under the Diminishing Balance Method of charging depreciation.

(a) Increases every year

(b) Decreases every year

(c) Is constant every year

(d) Accumulation every year.

(5) The amount of depreciation charged on machinery will be to

(a) Cash account

(b) Machinery account

(c) Depreciation account

12- State whether the following statements are true or false

(1) Profit cannot be computed properly depreciation is provided.

(2) It is not necessary to depreciate a building if it is not in use.

(3) Depreciation increases the value of asset as well as increases the profit of the year.

(4) A repair to machinery is revenue expenditure.

(5) Installation charges incurred on machinery is capital expenditure.

(6) Under Reducing Balance Method value of fixed asset is reduced to zero.

(7) Depreciation is not charged by loss making business.

(8) Freehold land never depreciates.

(9) Under Fixed installment method, amount of depreciation remains constant.

(10) The profit or loss on sale of fixed asset can be ascertained only after the depreciation is calculated.

13- Fill the following blanks:

(1) Under ……………method, amount of depreciation changes every year.

(2) Depreciation amount remains……….. under fixed installment method.

(3) The amount of depreciation goes on decreasing every year under the …………….method of depreciation.

(4) At the end of every year the balance of depreciation account is transferred to…………….. Account.

(5) Under the………………….. method of depreciation, the amount of depreciation does not change from year to year.

(6) Under ……………… method, the cost of asset cannot be reduced to zero.

(7) Amount spent on installation of a new machinery is a……………..expenditure.

(8) Depreciation = Cost an asset less……. ÷ Estimated life of an Asset

(9) Under the………..method the amount of depreciation remains constant every year.

(10) Wages paid for installation of machinery should be debited to………. account.

(11) Under …….. Method depreciation is calculated on written down value.

(12) Balance of depreciation A/c is transferred to………… A/c.

B- EXERCISES

1- If Cement company imported a machine from Jordan and paid the following by cheques:

Invoice price IQD 27000

Shipping costs IQD 3000

Installation cost IQD 5000

Required:

(1) Record the purchase process in Journal of Cement Company.

(2) If the depreciation is 10% straight line method. Find the amount of depreciation for the first year and record the entry.

(3) Show the effect of depreciation on income statement and on balance-sheet.

2- The cost of buildings is IQD 105000 accumulated depreciation is IQD 55000.

(a) What is the book value at that date?

(b) If the building is sold at IQD 60000 cash. Record this transaction.

3- Abdul Rahman Brothers purchased a machinery on 1^{st} January 2019 for IQD 10000. They decided to depreciate the machinery by straight Line Method. Show the machinery account for the first 3 years.

4- Hameed Brothers purchased machinery on 1^{st} January 2021 for IQD 50000.They decided to depreciate the machinery by 5% following diminishing balance method, show the machinery account from the above particulars for the first four years.

5- On 1^{st} January 2021, a machine was purchased for IQD 80000 Rate of depreciation is 10% per annum. Prepare machine account for three years when depreciation is charged under fixed installment method.

6- Textile Company purchased furniture on following dates:

1 - 4 -2020 IQD 20000

1 -7- 2020 IQD 30000

1 -10- 2020 IQD 10000

They charge depreciation @ 10% p.a. under straight line method. The accounting closes on 31st March every year.

Required: Show the furniture A/c and depreciation A/c for the years 2019 - 2020, 2020 - 2020 & 2020 -2021.

7- AL-Quds & Co. Purchased machinery costing IQD 60000 on 1^{st} March, 2019 Installation charges amounted to IQD 15000. The estimated working life of the machine is 5 years. The scrap value at the end is estimated at IQD 5000. The Company closes its books of accounts on 31^{st} March every year.

Required: Prepare Machinery A/c & Depreciation A/c for the year 2019 - 2020, 2020 - 2021 & 2021 - 2022. Also give Journal entries for the year 2019 - 2020.

8- Abdul- Salam and Company acquired a machine on 1st April 2019 at a cost of IQD 60000, the cost of installation being IQD 20000. It is expected that the life of the machinery will be 40000 hours, during 2019 the machine worked for 3000 hours and during 2020 the machine worked for 2500 hours.

Write up the machinery account for 2019 and 2020 using Machine hour rate method of depreciation.

9- The Minerals LTD. acquired a coal mine at a cost of IQD 16000 on 1st January 2017.The expected total output of coal will be 500000 tones. The actual output was as follows: 2017: 20000 tones 2018: 40000 tones, 2019: 30000 tones.

Write up the mines account for 2017, 2018 and 2019 using Depletion Method of Depreciation.

10- Mahmud stores acquired following assets on various date during the period 2017.

Details	**Machine**	**Bus**	**Car**
Cost (IQD)	24000	36000	32000
Salvage (IQD)	4000	NiL	2000
Estimated life (years)	6	10	5
Acquisition Date	1st, Jan	1st, April	1st, July

Using each 1 -Straight Line Method 2 - Diminishing balance method to compute the annual depreciation, and depreciation expense for the periods 2017, 2018 and 2019, and pass depreciation entries for each asset every period.

11- Machine was purchased for IQD 2000000 cash. IQD 800000 was paid as freight and shipment charges of and IQD 1700000 was also paid as charges of installation. The estimated total working capacity of machine is 100000 hours, and salvage is IQD 1000000.

Required:

(l)Compute the machine cost.

(2) Compute depreciation expenses of the machine in case in worked for 15000 hours during the first year of its life, and 20000 hours during the second year.

(3) Pass the acquisition and depreciation entries in the Journal.

(4) Assume that by the second years ending, the machine was traded-in by equipment is similar .The cash boot paid for the exchange is IQD 13000000, and the fair value of the machine is estimated to be IQD 4000000. Record the trade-in transaction in journal.

☞ Answer to Questions No. (1), (2), (3)

No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	d	d	d	c	c	b	a	a
2	b	a	d	c	b	-----	-----	-----
3	False	True	False	True	False	True	False	True

☞ Answers to questions No.: (10), (11), (12)

No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
10	c	b	a	a	c	a	-----	-----	-----	-----
11	a	b	d	b	b	-----	-----	-----	------	-----
12	T.	T.	F.	F.	T.	T.	T.	T.	T.	T.

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CHAPTER

(4)

CURRENT ASSETS

1- Accounting for Inventory

- Classes of Inventory
- Methods of Inventory Valuation
- Inventory Systems

2- Accounts Receivable

- Trade Receivable
- Other Receivable
- Valuation of Trade Receivable
- Notes Receivable

3- Commercial Papers

- Cheques
- Promissory Note
- Bill of exchange

4- Securities Investments

- Classification of Securities
- Accounting Treatment of Marketable Securities
- Valuation and Presentation of Marketable Securities

5- Cash and Bank Reconciliation

- Cash Shortage and Overage
- Bank Reconciliation Statement
- Questions and Exercises?

CHAPTER

(4)

CURRENT ASSETS

الأصول المتداولة

Current assets represent the value of all assets that are reasonably expected to be converted into cash within one year in the normal course of business. Current assets include inventory, accounts receivable, marketable securities, cash, prepaid expenses and other liquid assets that can be readily converted to cash. In personal finance, current assets are all assets that a person can readily convert to cash to pay Accrued debts and cover liabilities without having to sell fixed assets. In other words, current assets are anything of value that is highly liquid.

1- ACCOUNTING FOR INVENTORY محاسبة المخزون

A merchandising business or retail store is mainly involved in selling goods. The merchandise it has on hand for resale is called inventory. Inventory is classified as a current asset since it will be converted into cash within one year. For a manufacturing business, three types of inventories exist: raw materials, goods in process, and finished goods.

Inventories represent one of the most important elements of a business. Much of a company's resources are invested in this asset, which is usually its chief source of revenue. In recent years, accountants have given much consideration to the primary inventory problems of (1) determining quantity and (2) determining the value, which are discussed here in this subject.

A- Classes of inventories أصناف المخزون

In a merchandising business at the retail or wholesale level, inventories consist of goods held for sale in the same form as purchased and are designated merchandise inventory. A manufacturing business, in contrast, has several types of inventories: finished goods, goods in process and raw materials.

(1) Finished Goods بضاعة تامة

Finished goods are completed products awaiting sale. All costs (i.e. those for raw materials, direct labor and manufacturing overhead) have been

incurred. Finished parts of assemblies purchased or produced for use in the completed product, however, are classified as raw materials.

(2) Goods in Process بضاعة تحت التشغيل

Goods in process or work in process consists of partly completed goods. Generally, the cost of raw material, direct labor and manufacturing overhead applied to date can be identified and included in the cost of goods in process.

(3) Raw Materials مواد أولية

Raw materials may be obtained directly from natural resources or from production. Thus, they may be produced by the company manufacturing the finished product or purchased as the finished product of another company. Raw materials cost includes the purchase price, freight, receiving, storage and/or other charges necessary to make the finished goods ready for use. Factory supplies are auxiliary materials that do not become an integral part of the finished product, such as cleaning supplies, lubricating oils and fuels.

B- Inventory Systems أنظمة جرد المخزون

The two principal systems for determining the inventory quantities on hand are the periodic system and the perpetual system. Both systems may be used simultaneously by companies with different classes of inventory.

(1) Periodic inventory system نظام الجرد الدوري

Under a periodic inventory system, no entries are made to the inventory account during the period. Thus, acquisitions of inventory goods are debited to "Purchases" while issuances are not recorded, so that at any point of time the balance in the inventory account reflects the amount of the beginning of the period. At the end of each accounting period, the cost of inventory (unsold units) is determined by counting units of each product on hand, multiplying the count for each product by its cost, and adding costs of various products. Cost of goods sold (CGS) is a residual amount obtained by subtracting the ending inventory from the sum of beginning inventory and purchases.

◆ **Example:**

The balance of inventory as of Dec, 31, 2019 is IQD 6000000 For Zain Company. The total amount of purchases on account is IQD 54000000. In June, 30, 2020the inventory is counted and priced, its value is IQD 10000000. The sales for the period are IQD 75000000 on credit.

Required: Record the transactions in the general Journal of Zain's Company if this Company used a periodic inventory system.

Find gross profit for that company by preparing the first part of income statement.

◆ **Entries:**

Date	particulars	Debit	Credit
Jan.- June 2020	Purchases A/c Dr. To Accounts payable A/c	54000000	 54000000
Jan.- June 2020	Accounts receivable A/c Dr. To Sales A/c	75000000	 75000000
30th , June, 2020	Ending inventory A/c Dr. To Income summary	10000000	 10000000

◆ **Income statement**

Income statement of Zain's company

for the period ended…………..

Particulars	IQD	IQD
Sales Less: cost of goods sold Beginning inventory + Cost of purchases	 6000000 54000000	75000000
Cost of goods available for sale less: Ending inventory	60000000 (10000000)	 (50000000)
Gross profit		25000000

(2) Perpetual inventory system نظام الجرد المستمر

Under the perpetual inventory system, a continuous record is maintained of items entering into and issued from inventory. The balance in the inventory account at any time reveals the inventory that should be on hand. Furthermore, cost of goods sold can be directly obtained from the inventory records.

In other words, the perpetual inventory is an inventory system in which an individual record is kept for each product of the units on hand at the beginning, the units purchased, the units sold, and the new balance after each purchase or sale.

When the company uses a perpetual inventory system, the entries are as follow:

No	Particulars	Dr. IQD	Cr. IQD
1	**- The company purchased goods, the entry is:** Stores (Inventory) control A/c Dr. To accounts payable A/c (Purchase goods on credit)	 xxx	 xxx

No	Particulars	Dr. IQD	Cr. IQD
2	**- The company sold goods, the entry is:** Cost of goods sold A/c Dr. To stores (Inventory) control A/c	xxx	xxx
3	Accounts receivables A/c Dr. To Sales revenues A/c (Sell goods on credit)	xxx	xxx
4	Sales returns and allowances A/c Dr. To accounts receivables A/c (Return goods sold on credit)	xxx	xxx
5	Accounts payable A/c Dr. To Purchases returns and allowances A/c (Return goods purchased on credit)	xxx	xxx

Exercise (1)

The following transactions are incurred in books of Khalid Company during the year 2020:-

(1) The balance of inventory at 1st January 2020 is IQD 100000 (5000 units for IQD 20 for per unit).

(2) On 5/2 bought goods on credit from Mazen for IQD 120000 (6000 units for IQD 20 for per unit).

(3) On 10/2 return some of goods which purchased from Mazen its value IQD 10000 (500 units, the cost of unit IQD 20).

(4) On 3/8 sold goods on credit to Marwan stores for IQD 320000 (8000 units cost of unit IQD 20).

(5) On 15/8 Marwan stores return goods valued IQD 40000 (1000 units, cost of unit IQD 20) .

(6) (On 11/12 bought goods by cheque valued IQD 60000 (3000 units for price IQD 20 for per units).

Required :-Record the transactions in the general journal of Khalid Co. assume:

(1) The company used a periodic inventory system.

(2) The company used a perpetual inventory system

Solution:

◆ **Periodic inventory system**

Date	Particulars	Dr. IQD	Cr. IQD
5/2	Purchases A/c Dr. To Accounts Payable(Mazen)A/c	120000	120000
10/2	Accounts Payable(Mazen) A/c Dr. To Purchases Returns A/c	10000	10000
3/8	No Entry	160000	160000
3/8	Accounts Receivable (Marwan) A/c Dr. To Sales A/c	320000	320000

Date	Particulars	Dr. IQD	Cr. IQD
15/8	No Entry	20000	20000
15/8	Sales Returns A/c Dr. To Accounts Receivable (Marwan) A/c	40000	 40000
11/12	Purchases A/c Dr. To Bank A/c	60000	 60000

◆ **Perpetual inventory system**

Date	Particulars	Dr. IQD	Cr. IQD
5/2	Stores(Inventory) Control A/c Dr. To Accounts Payable (Mazen) A/c	120000	 120000
10/2	Accounts Payable(Mazen) A/c Dr. To Stores(Inventory)Control A/c	10000	 10000
3/8	Cost of goods Sold A/c Dr. To Stores(Inventory)Control A/c	160000	 160000
3/8	Accounts Receivable (Marwan) A/c Dr. To Sales A/c	320000	 320000
15/8	Stores(Inventory)Control A/c Dr. To Cost of goods Sold A/c	20000	 20000
15/8	Sales Returns A/c Dr. To Accounts Receivable (Marwan) A/c	40000	 40000
11/12	Stores(Inventory) Control To Bank A/c	60000	 60000

C- Methods of Inventory Valuation طرق تقييم المخزون

There are various methods of determining the value of inventory when identical goods are acquired at different time's prices. The methods used for evaluation of the inventory are cost flow. The concept of a cost flow refers to the entire flow of costs through the system, from purchase or production of goods to their sale. The main cost flow methods are: first-in, first-out (FIFO), last-in, first-out (LIFO), and weighted average and specific identification.

◆ **Example:**

The following data will be used to illustrate the first three methods:

Date/Type	Units	Cost per Unit IQD	Total Cost IQD
Jan. 1 Inventory	150	8	1200
Feb. 20 : Purchases	200	9	1800
Apr. 12 Purchases	250	10	2500
Sept. 20 Purchases	200	11	2200
Goods available for sale	800		7700

Assume that the physical inventory on December 31 is 430 units.

(1) First-In, First-Out (FIFO) Method طريقة ما يرد أولا يخرج أولا

This method assumes that merchandise is sold in the order of its receipt.

◆ **Example:**

Under the FIFO method, merchandise on hand is considered to be that which was most recently received .Hence, year-end inventory of 430 units is valued as follow:

Particulars	Calculation	IQD
-Last purchase (Sept.20)	200 units × IQD 11	2200
-Next most recent purchase (Apr.12)	230 units × IQD 10	2300
Total	430	4500

The FIFO method really turns out to be first-price-in, first-price-out. Hence, cost of goods sold is based on the older costs. Ending inventory is reflected at the latest costs.

(2) Last-In First-Out (LIFO) Method طريقة ما يرد أخيرا يخرج أولا

In this method we assume that goods are sold in the reverse order of their acquisition.

◆ **Example:**

Under the LIFO method, ending inventory is reflected at the beginning costs of the purchases made. Therefore, cost of goods sold is based upon the most recent costs. The year-end inventory is computed as follows:

Particulars	Calculation	IQD
Initial purchase (Jan. 1)	150 units@ IQD 8	1200
Next purchase (Feb. 20)	200 units@ IQD 9	1800
Next later purchase (Apr. 12)	80 units @ IQD 10	800
Total	430 units	3800

LIFO has two advantages over FIFO. First, LIFO matches most recent costs with current sales. Therefore, in a rising cost spiral net income and thus tax would be reduced. Second, LIFO results in a more accurate measurement of net income in an inflationary period because current costs are matched against current revenue.

(3) Weighted – Average Method طريقة المعدل الموزون

To obtain a weighted-average unit cost, the total cost of goods available for sale is divided by the total units available for sale. This average unit cost is then used to determine inventory and cost of goods sold. The

advantage of the method is that costs are assigned equally to both inventory and goods sold.

◆ **Example:**

The average unit cost is computed as follows:

Cost per unit = Cost of goods available ÷ Unit available =

IQD 7700 ÷ 800 = 9.63 IQD

The value of the ending inventory is therefore:

430 units × IQD 9.63 = IQD 4141

Compares the results of the three methods discussed above in terms of ending inventory and cost of goods sold. It should be remembered that:

Cost of goods available for sale - Ending inventory = Cost of goods Sold

The tabulated results of these three methods reveal the following comparisons:

Particulars	FIFO	LIFO	Weighted Average
Cost of goods available for sale Less: Ending inventory, Dec.31	7700 (4500)	7700 (3800)	7700 (4141)
Cost of goods Sold	3200	3900	3559

It is to be noted that if the ending inventory is overstated, then the cost of goods sold will be understated income overstated. On the other side, if the ending inventory is understated, then the cost of goods is overstated and net income understated. It is thus evident that the method selected can have a material effect upon the entity's net income and related tax. It also has an effect upon the balance sheet in term of the inventory valuation.

Exercise (2)

The beginning inventory and various purchases of product (B) were as follows:

Date	Type	Units	Cost per unit IQD
January.1	Balance	8	10
March.5	Purchase	12	11
June.20	Purchase	16	12
Aug.20	Purchase	15	13
Nov.1	Purchase	18	14

An inventory count under the periodic system disclosed that (30) units of product (B) were on hand.

Required: Determine the ending inventory cost by

(a) First in-first-out (b) Last in- first-out

(c) Weighted average. (a) FIFO

Particulars	Calculation	IQD
Purchase 1.Nov.	18 units @ IQD 14	IQD 252
Purchase 20. Aug.	12 units @ IQD 13	IQD 156
Total	30 units	IQD 408

(b) LIFO

Particulars	Calculation	IQD
Jan.1 Balance	8 units @ IQD 10	IQD 80
March. 5	12 units @ IQD 11	IQD 132
June 9	10 units @ IQD 12	IQD 120
Total	30	IQD332

(c) Weighted average

Date	Type	Units	Cost per unit IQD	Cost IQD
January.1	Balance	8	10	IQD 80
March.5	Purchase	12	11	IQD 132
June.20	Purchase	16	12	IQD 192
Aug.20	Purchase	15	13	IQD 195
Nov.1	Purchase	18	14	IQD 252
Total		69		IQD 851

The average of cost per unit = IQD 851 / 69 = IQD 12.33

The cost on ending inventory is calculated as follow:

30 units @ IQD 12.33 = IQD 370

(4) Specific Identification طريقة التمييز الخاص

A fourth method identifies the actual costs by reference to the specific invoices. It is often used when the cost per unit is very high.

◆ **Example:**

Particulars	Calculation	IQD
Purchase invoice #1,416(Feb. 20)	180 units x IQD 9	1620
Purchase invoice #1,453 (Apr. 12)	130 units x IQD 10	1300
Purchase invoice #1,498 (Sep. 20)	120 units x IQD 11	1320
Total	430	4240

(5) Lower of Cost or Market Method طريقة الكلفة أو سعر السوق أيهما اقل

Inventories are generally estimated at lower - of - cost - or - market (LCM) as an application of conservatism constraint.

A conservative means of valuing inventory is derived from the use of the lower of cost or market method. The decline in inventory value is reflected as a loss for the period; regardless of the fact that the inventory has not been sold. Under the method, the lower of the unit cost (as determined under FIFO or weighted average) or market price (current replacement cost) of the item is used. The tax law not allows the use of this approach in

conjunction with the LIFO method. Increases in value of inventory are not shown since this would violate the conservatism principle.

The lower of cost or market rule is also applicable when the inventory consists of separate lots. Assume the following data:

Lot	Quantity in Units	Unit Cost	Unit Replacement Cost	Total Cost	Total Replacement Cost	Lower of Cost or Market Value
W	200	7.0	7.50	1400	1500	1400
X	250	9.00	10.00	2250	2500	2250
Y	300	10.00	9.00	3000	2700	2700
Z	400	11.00	12.00	4400	4800	4400
Total				11050	11500	10750

If the lower of cost or market rule is applied on an item-by-item basis, inventory would be valued at 10750. However, an alternative means of applying the rule is to take the lower of the total cost or total market value of the inventory. In this case, inventory would be reflected at IQD 11050. A third alternative approach is to apply the lower of cost or market value concept to the categories of inventory rather than individual items.

(6) Gross Profit Method **طريقة الربح الإجمالي**

Under, the method, the expected gross profit rate (gross profit to net sales) for the period is used. The ending inventory can be computed by preparing a partial income statement starting with sales and ending with gross profit. The amounts for the beginning inventory, net purchases, and net sales are entered in the partial income statement.

The gross profit method can be used to estimate the inventory at the end of an interim period (e.g., quarterly, monthly). The method can also be used to estimate the inventory at the date of a fire for insurance reimbursement.

◆ **Example:**

Assume that the beginning inventory is IQD 15000, net purchases are IQD 90000, and net sales are IQD 200000. Gross profit rate has been running 60 percent of net sales.

Income Statement (partial)

Particulars	IQD	IQD
Net Sales		200000
Less: Cost of Goods Sold: Beginning Inventory Net Purchases Cost of Goods Available Less: Ending Inventory	 15000 90000 105000 ?	

Particulars	IQD	IQD
Cost of Goods Sold		80,000
Gross Profit on Sales (60% x 200000)		120000

Since cost of goods available less ending inventory is equal to cost of goods sold, the ending inventory must be IQD 25000. The proof is:

Cost of Goods Available - Ending Inventory = Cost of Goods Sold

105000 - 25000 = IQD 80000

(7) Retail Method **طريقة التجزئة**

Mainly used by department stores and other types of retail establishments, the retail method is based on the relationship between the cost of the goods available for sale and the retail price of such goods. The ending inventory at retail is the difference between the retail prices of the goods available for sale less the sales for the period. The inventory is converted from retail to cost based upon the ratio of cost to selling price.

◆ **Example:**

	Cost	Retail
Merchandise Inventory, December 1	45000	60000
Purchases	50000	68000
Merchandise Available for Sale	95000	128000
Sales for December		100000
Merchandise Inventory, December 31, at retail		28000
Merchandise Inventory, December 31, at cost	20776*	

* Ratio = Cost ÷ Retail = 95000 ÷ 128000 = 74.2%

28000 x 74.2% = 20776

The method is beneficial in that it provides inventory figures for interim reporting and assists in detecting inventory shortages. However, a complication may arise in practice, if frequent markups markdowns modify the initially established sales prices.

The topics of purchase discounts, purchase returns and allowances, and transportation have already been discussed in previous chapter of this book.

2- ACCOUNTS RECEIVABLE حسابات الذمم المدينة

The term accounts receivable generally denotes (يعني، يدل على) all claims involving a future inflow of cash. These accounts receivable result from business transactions involving sales of goods and services, loans and miscellaneous (متنوعة، شتى) claims. Accounts receivable are representing as amounts due to the firm in exchange for goods or services provided.

A- Trade Accounts Receivable الذمم التجارية

Trade receivables represent the sale of goods and services in the normal course of business operations and account for the major portion of a firm's revenue-producing activities. The open account, or trade account, created by a transaction between business concerns is generally unsecured (an informal arrangement rather than a legal agreement) and non-interest-bearing.

Trade receivables sometimes take the form of commercial credit instruments such as promissory notes or time drafts. Since these are signed agreements, a measure of legal commitment is provided and the holder may borrow against them.

B- Other Receivables **الذمم الأخرى**

Revenue is sometimes generated from sources other than trade receivables. Among these are short-term advances to customers or subcontractors, insurance claims, claims for rebates (تنـزيلات) on taxes or other overpayments, sale of plant and equipment and accruals of interest, rent, royalties, etc. Such receivables are properly classified as current assets when collection is expected within one year and as other assets or miscellaneous assets if a longer collection period is anticipated.

C- Valuation **Trade** Receivables **تقييم الذمم التجارية**

Trade receivables are generally recognized at the time goods are sold and title passes, or when the service provided is actually performed. The valuation placed on the receivables depends on the amount due, the time of collection and the probability of collection.

◆determining the amount due **تحديد المبلغ المستحق**

The amount actually paid by the customer often includes a variety of charges and discounts which the seller may impose on the quoted price.

(1) **Trade discounts** represent the difference between the gross or recommended list price and the net price to the buyer before other discounts and charges. The receivable and resulting revenue are both recorded at the net price.

(2) **Cash discounts** are offered as an incentive for prompt payment. They represent the difference between the cash price and the amount realized.

◆ **Example:**

When the Sincerely Yours Greeting Card Company shipped Cards Unlimited's IQD 1100000 order on May 1, its invoice carried the terms 2/10, n/30. Taking advantage of the cash discount, Cards Unlimited remitted IQD 539000 (IQD 1100000 – IQD 550000 – IQD 11000) on May 8. The additional 2% discount represents the saving of an effective interest rate of 36.7% per annum to the buyer.

The seller may record cash discounts as they are taken or by establishing a system for anticipating them. The latter method more closely records receivables and revenues at their net realizable amounts. When cash discounts are anticipated and the customer pays after the discount period, the allowance account is offset by a credit to Sales Discounts Forfeited.

◆ **Example:**

Suppose that Sincerely Yours records cash discounts when they are taken. The accounting entry on May 1 reflects the gross amount (or the amount after trade discount):

Date	Particulars	Dr. IQD	Cr. IQD
May 1	Accounts Receivable A/c Dr. To Sales	550000	 550000

When Cards Unlimited payment is received on May 8, the entry is

Date	Particulars	Dr. IQD	Cr. IQD
May 8	Cash A/c Dr. Cash Discount A/c Dr. To Accounts Receivable	539000 11000	 550000

If instead, Sincerely Yours followed the practice of anticipating cash discounts, the entries might have been

Date	Particulars	Dr. IQD	Cr. IQD
May 1	Accounts Receivable A/c Dr. To Sales To Allowance for Cash Discounts	550000	 539000 11000
May 8	Cash A/c Dr. Allowance for Cash Discounts A/c Dr. To Accounts Receivable A/c	539000 11000	 550000

(3) Sales returns and allowances recognize the probability that some merchandise will be returned or that an adjustment will be made on sales price.

◆ **Example:**

The Sincerely Yours Greeting Card Company knows that its sales returns average 5% of accounts receivable at the end of any period. At the end of May, the following entry is made to adjust IQD 500000 in Accrued trade receivables.

Date	Particulars	Dr.	Cr.
	Sales Returns and Allowances A/c Dr.	25000	
	To Allowance for Sales Returns and Allowances A/c		25000

Thus restating its receivables at their net realizable amount.

◆ Time of collection وقت التحصيل

It is generally acknowledged that a given amount of money is worth less today than a year from now. Therefore, when it is known that a receivable will not be collected for a long period of time and no interest is being charged, it is customary to assign a present value to that account based on an appropriate rate of interest.

◆ **Example:**

If a receivable for IQD 3180000 is to be Accrued for an entire year and money is worth 6% per annum, the entry at the time of sale would be:

Date	Particulars	Dr.	Cr
	Accounts Receivable A/c Dr.	3180000	
	To Sales A/c		3000000
	To Interest Income A/c		180000

◆ Probability of collection احتمالية التحصيل

While the probability of any receivable being ultimately uncollectible is very low, it is a necessary consideration with respect to valuation accuracy (دقة، ضبط). Uncollectibles are estimated to prevent an overstatement of assets and revenues; the estimate serves to reduce gross receivables to an approximation of the net realizable value of short-term funds due from customers.

The valuation account carries a credit balance and is variously titled Allowance for Doubtful Accounts or Allowance for Uncollectible Accounts. On the income statement, the estimated allowance may be shown as a contra asset reducing gross sales, but is more often included as an operating expense or other expense representing a failure of management.

The two principal methods for estimating uncollectibles are an estimate based on a percentage of sales and an estimate based on an analysis of receivables at the end of the accounting period. Uncollectibles may also be recognized on a direct write-off basis. Finally, the possibility does exist that some accounts deemed (يعتبر) uncollectible and written off may eventually be collected.

(1) Estimate based on sales **التقدير على أساس المبيعات**

When the percentage of sales method is used, the seller examines the relationship between credit sales and uncollectible in past periods to derive a percentage applicable to credit sales in the current period. This method attempts to match costs and revenues in each period. It assumes a fairly stable relationship between credit sales and uncollectible and provides a basis for estimation which is in essence an average reflecting past experience. Since this method relies heavily on past experience, it is important to test the adequacy of the established percentage on a periodic basis to allow for any changes in business conditions.

◆ **Example:**

The Paradise Company found that uncollectible in 2010 and 2019 averaged 3% of credit sales in each year. Using this percentage to estimate uncollectible on first quarter 2020 credit sales of IQD 1000000, the journal entry is:

Date	Particulars	Dr. IQD	Cr. IQD
	Provision for Doubtful Accounts A/c Dr. To Allowance for Doubtful Accounts A/c (To record provision for doubtful accounts in the first quarter based on 3% of IQD 1000000 in sales).	30000	30000

(2) Estimate based on accounts receivable **التقدير على أساس الذمم المدينة**

This method of estimating uncollectible depends on an analysis of receivables by age group and probability of collection. It assumes that there is a strong relationship between the age of a receivable and its eventual collection. It has the advantage of identifying specific accounts in need of special attention. The procedure is to prepare an aged trial balance at the end of the accounting period, classifying the Accrued amounts according to whether the account is not due or past due, based on varying lengths of time.

◆ **Example:**

The Rafidein Company has asked its accountant to prepare an aged trial balance of accounts receivable as a basis for estimating the amount of its uncollectible accounts. It is presented below.

The Rafidein Company

Aged Trial Balance December 31, 2019

(Amounts in IQD Thousands)

Customer	Amount	Not Yet Due	Past-Due Days					
			Under 30	31-60	61-90	91-120	121-180	Over 180
Brought forward	601000	359600	79700	58500	48600	24800	9900	19900
Adnan	1600			1500	100			
Bassim	300		300					
Bassil	400	400						
Kamil	200						100	100
Kassim	1500				1300	200		
Totals	605000	360000	80000	60000	50000	25000	10000	20000

Once the amount of receivables has been determined for each of the aging categories, experience percentages are applied to arrive at the estimated uncollectible amount. Following is the schedule prepared by the accountant for the Rafidein Company.

The Rafidein Company

Estimation of Uncollectible Receivables

December 31, 2019

Classification	Balances IQD	Uncollectible %	Estimated ncollectible Amount IQD
Not yet due	360000	2	7200
Under 30 days past due	80000	5	4000
31 to 60 days past due	60000	10	6000
61 to 90 days past due	50000	15	7500
91 to 120 days past due	25000	20	5000
121 to 180 days past due	10000	45	4500
Over 180 days past due	20000	75	15000
Totals	605000		49200

It is important to note that actual write-off of uncollectibles rarely agrees with the balance in the allowance account. If the differences are nominal, it is not necessary to change the balance. Major differences, however, require charges to the current period's Uncollectible Accounts Expense or a similar account before computing extraordinary items. They should not be recorded as extraordinary items or prior period adjustments.

(3) Direct write-off method طريقة الشطب المباشر

Under the direct write-off method, bad debts are recorded only when specific accounts are determined to be definitely uncollectible. Losses are recorded by crediting Accounts Receivable and debiting Bad Debts Expense.

(4) Collection of receivables previously written- off

تحصيل الذمم المشطوبة سابقا

When a firm uses the allowance method for estimating uncollectibles, the actual write-off of a receivable is a charge to Allowance for Doubtful Accounts and a credit to Accounts Receivable. If the firm uses the direct charge-off method, the charge is to Bad Debt Expense and a credit to Accounts Receivable.

D- Notes Receivable**أوراق القبض**

For accounting purposes, the term notes receivable refers to promissory notes, bills of exchange or trade acceptances. Notes receivable are distinguished by the fact that they are written contractual arrangements for the payment of a specific amount of money, generally plus interest, at a stated time. They are usually negotiable or transferable instruments which enable the holder to use them for cash generation in much the same way as is done with accounts receivable.

- Valuation of notes receivable **تقييم أوراق القبض**

A note is generally recorded at its face value. However, when no interest rate is specified, the face amount of a note is assumed to include some provision for interest. Such non-interest-bearing notes are recorded at face value less an interest charge based on a percentage that is assumed to be reasonable. The Discount on Notes Receivable is taken into income over the life of the note.

◆ **Example:**

A one-year note with a face value of IQD 26500 and no stated interest rate would be recorded as follows, using 6% as a reasonable rate of interest.

Date	Particulars	Dr.	Cr.
	(1) At acquisition (الاقتناء عند) Notes Receivable A/c Dr. To Discount on Notes Receivable A/c To Sales A/c	26500	1500 25000
	(2) Monthly entry to record interest earned. Discount on Notes Receivable A/c Dr. To Interest Earned A/c	125	125
	(3) At maturity (الاستحقاق عند) Cash A/c Dr. To Notes Receivable A/c	26500	26500

- Discounting notes receivable خصم أوراق القبض

Notes receivable may be sold or discounted. When a note is sold to a bank or finance company without recourse, the seller assumes no future liability should the maker of the note default. Discounting, on the other hand, is usually done on a recourse basis (i.e. money is borrowed using the note as collateral and the borrower, who endorses the note, becomes contingently liable should the maker default). The proceeds or cash received when a note is discounted may be computed in one of two ways:

(1) The interest or discount charged by the lender is deducted from the face value of the note, or

(2) The discount rate may be applied to the maturity value of the note.

◆ **Example:**

Assume that the non-interest-bearing note for IQD 26500 (Example 9) is discounted at the local bank the day it is received at a rate of 6%. The amount of cash that the company will receive is computed as follows:

Particulars	IQD
Face amount of note, less interest	25000
Interest included therein	1500
Maturity value	26500
Less: Discount at 6%	1590*
Cash received (proceeds)	24910

*(26500x6%) – (2500 x 6%) = 1590 – 1500 = 90 finance charge for bank.

The discount is computed on the maturity value of IQD 26500 while the interest (assumed to be 6%) is computed on the principal of IQD 25000. The IQD 90 difference between these computed amounts represents an additional finance charge by the bank. Keeping in mind that this note was probably given in exchange for IQD 25000 worth of sales merchandise, this arrangement can be likened to factoring accounts receivable, where a percentage of the actual value is withheld by the factor as a fee. In both cases, the seller receives slightly less than the present cash value of the receivable.

When the note is discounted, the entry to record this would be:

Date	Particulars	Dr.	Cr.
	Cash A/c Dr.	24910	
	Discount on Notes Receivable A/c Dr.	1500	
	Financing Expense A/c Dr.	90	
	To Notes Receivable Discounted A/c		26500

When the note is paid the following entry would be made:

Date	Particulars	Dr.	Cr.
	Notes Receivable Discounted A/c Dr. To Notes Receivable A/c	25000	 25000

If the note is dishonored at maturity (the maker fails to pay the seller as promised), the entries are:

Date	Particulars	Dr.	Cr.
	Accounts Receivable A/c Dr. To Cash A/c	26500	 26500
	Notes Receivable Discounted A/c Dr. To Notes Receivable A/c	26500	 26500

3- COMMERCIAL PAPERS (NOTES) **الأوراق التجارية**

Commercial paper is generally issued by corporations or by large banking institutions. The main function is usually to provide funds for the company's Accounts Receivable in order to handle short-term obligations.

Commercial paper is a certificate acceptable for exchange as a payment instrument through endorsement (تظهير) or delivery (تسليم).

The kinds of Commercial papers are the following:

- Cheques.
- Promissory notes.
- Bill of exchange.

A- Cheques **شيكات**

Cheque is an orderly written paper from the drawer (الساحب) to drawee (المسحوب عليه) (a bank) to pay a specified amount of money at sight for a third party the drawer or the bearer (الحامل) or beneficiary (المستفيد).

B- Promissory Note **كمبيالة ورقة**

Promissory Note is a certificate the maker obliged himself to pay amount of money at sight or at a certain date for a beneficiary. If the maker of a promissory note is a merchant the promissory note will be a commercial paper.

Promissory notes are a form of debt similar to a loan. Companies issue these notes to finance any aspect of their business, from launching new products to repaying more expensive debt. In return for the loan, companies agree to pay investors a fixed return over a set period of time.

C- Bill of exchange **ورقة سحب**

Bill of exchange is unconditional written order (instrument) made by a drawer to a drawee to pay a specified amount of money for a third party

either a bearer or the beneficiary on demand or at a fixed or determinable future date.

Bill of exchange is a commercial paper not a financial paper since it is a result of business transactions**.**

Legally, cheque is a bill of exchange drawn on a banker, payable on demand.

In practice, check is a direction in writing to a bank to pay a stated sum of money on demand to a named person or organization, or to his or their order, or to bearer.

In practical accounting profession, cheques are treated as cash. Promissory notes and withdrawals are either a note receivable for the payee (receiver) or a note payable for the maker (issuer).

◆ **Example:**

Ismail Mussa Company sold goods at IQD 4000000 for AL-Taqwa Company with a promissory note due after three months.

The journal entry in books of Ismail Mussa Co. is:

Notes receivable A/c Dr To sales A/c	4000000	 4000000
The journal entry in Al-Taqwa company is:		
Purchases A/c Dr To notes payable A/c	4000000	 4000000

Notes receivables are assets while notes payable are liabilities.

Suppose a note receivable was written to settle (يسوي، يسدد) an open account receivable, the entry of the receipt of the note at payee journal book is:

Notes receivable A/c Dr To accounts receivable A/c	3000000	 3000000
The journal entry at the issuer journal book is:		
Accounts payable A/c Dr To notes payable A/c	3000000	 3000000

◆ **Example:**

The balance sheet presentation of receivables:

Particulars	Amounts IQD
Notes receivables	16000000
Accounts receivables	34000000
Other receivables	3000000
Total receivables	53000000
Less: Allowance for doubtful account	(13000000)
Net receivables	40000000

4 - SECURITIES INVESTMENTS الأوراق المالية استثمارات

When an economic entity has a plenty (وفرة) of cash that is not needed in its operations in the current period, it tries to obtain a return thereupon (عليه، عـلى ذلـك) through investing it. Such investment takes the form of purchasing securities (i.e. shares and bonds) of another economic entity. The return on shares is the dividend while it is the interest on bonds (debentures).

A- Classification of Securities تصنيف الأوراق المالية

(1) Marketable Securities أوراق مالية قابلة للتسويق

This class of securities is expected to be held by the economic entity for a relatively short period, i.e. maximum one year. When the need for cash arises, this security should normally be sold and its return be received. Hence, these securities belong to current assets group in balance sheet statement.

(2) Long - term Securities أوراق مالية طويلة الأجل

This type of investments is intended to be held in order to exercise a significant degree of control over the firm which issues the shares or the debentures held. These investments belong to non - current assets group in balance sheets statement.

B- Treatment of Marketable Securities

المعالجة المحاسبية للأوراق المالية القابلة للتسويق

Marketable securities are recorded at cost upon acquisition. Cost includes the actual purchase price plus brokers' fees (أتعـاب الـسماسرة), transfer taxes and any other costs incidental (عرضي، طارئ) to acquisition.

When the securities are acquired (purchased), they are recorded in the journal at acquisition cost as follows:

Date	Particulars	Dr.	Cr.
	Marketable Securities (bonds) or (shares) A/c Dr	xxx	
	To Cash/Bank A/c		xxx
	[(Being cash purchases of Marketable Securities (bonds) or (shares)]		

Example:

On January 2, Assia Electronics Incorporated was purchased IQD 100000 (IQD 100 par value) of a new bond issue at par (بالقيمـة المكافئـة). These

were 6% bonds with interest payable on June 30 and December 31. The cash outlay (انفاق) is:

Particulars	IQD
Cash outlay: Bonds (سندات) Brokerage fees (أتعاب سمسرة)	100000 7500
Total cash outlay	107500

The journal entry required to record the transaction is:

Particulars	Dr.	Cr.
Marketable Securities (Bonds) A/c Dr. To Cash A/c	107500	 107500

Example:

On 1st, October 2019 Mussa & Company, purchased securities (100 bonds, IQD 1000 for each bond with interest rate of 8%) including the broker fees.

Journalize the above transaction in the book of Mussa & Co.

In the book of Mussa & Co. 1st. October 2019

Date	Particulars	Dr.	Cr
1st October 2019	Marketable Securities (bonds) A/c Dr To Cash A/c [(Being Cash purchase of Marketable Securities (Bonds)]	100000	 100000

(1) Adjusting entries of Interest قيود تسوية الفائدة

Assume that the bonds pay Interest Semi – annually on 1st October, and 1st April. On 31.12.2019, the accrued Interest on bonds is computed as follows:

The accrued Interest = 100000 x 8% x (3÷ 12) = IQD 2000

The Adjusting entry in the Journal of Mussa and Co. is as follows:

Date	Particulars	Dr.	Cr
31.12.2019	Accrued bonds Interest A/c Dr. To Interest Revenues A/c [(Being to record accrued interest for 3 months on securities (bonds)]	2000	 2000

(2) Receiving Cash Interest on Securities استلام فائدة نقدية على الأوراق المالية

Referring to the same illustrated exercise, the interest on bonds is receivable Semi - annually. The entries of receiving interest in Journal are as follows:

Date	Particulars	Dr	Cr
1st, April, 2019	Cash A/c Dr. To Accrued bonds interest A/c To Interest Revenues on Securities (bonds) A/c (Being record receipt of Interest on bonds for 6 months)	4000	 2000 2000

(3) Sale of Securities بيع الأوراق المالية

Assuming that on 1st April, 2019 the securities (i.e. bonds) was sold by IQD 101000 in cash. The entry of sale would be:

Date	Particulars	Dr.	Cr
1st, April, 2019	Cash A/c Dr To Marketable Securities (bonds) A/c To Gain on sale of Securities A/c (To record the sale of securities with profit)	101000	 100000 1000

If the securities were sold by IQD 95000 and received by cheque the entry would be as follows:

Date	Particulars	Dr.	Cr
1st April, 2019	Cash A/c Dr Loss on sale Marketable Securities (bonds) A/c Dr To Marketable Securities (bonds) A/c (To record the sale of securities with Loss)	95000 5000	 100000

It is to note that investment in shares is similar to the bonds with regard to the accounting treatment. If securities represent shares, the purchase cost = purchase price + commission paid to the broker (الوسيط).

◆ **Example:**

Faissal & Co. purchased 100 shares of Gulf bank LTD on 1st December 2019 with IQD 380 per share. IQD 1900 commission was paid to a broker handled transaction at Iraqi Financial Securities Market.

The Purchased cost of shares = (IQD 380 x 100) + 1900 = IQD 39900

The entry of shares purchase in Journal would be as follows:

Date	Particulars	Dr.	Cr
1st Dec. 2019	Marketable securities (shares) A/c Dr. To Cash A/c (Being Cash purchased securities (shares))	39900	 39900

Assume, that on 31st December 2019, the dividend on these shares has been IQD 500, the adjusting entry to record this accrual is as below :

Date	Particulars	Dr	Cr
31st Dec., 2019	Accrued Dividend A/c Dr. To Revenues Earned A/c (Being to record accrued Dividend on Securities (shares)	500	 500

Suppose that this dividend is receivable on 5th, January, 2020 as follows:

Date	Particulars	Dr	Cr
5th, Jan., 2020	Cash /Bank A/c Dr. To Accrued Dividend A/c (To record receipt of dividend on shares)	500	 500

Note

If the shares are being sold more than their original cost, the result would be gain (مكتسب). On the contrary if sold less than original cost, the result is Loss (خسارة). The entries as we did in securities (bonds). Finally, the gains or Losses resulting from securities sale are transferred (closed) to the profit and Loss Account at the end of the year.

C- Valuation and Presentation of Marketable Securities

تقييم الأوراق المالية وعرضها في الميزانية

Generally accepted accounting principles dictate that marketable securities, particularly shares are to be reported (shown) on the balance sheet at either the original cost or market value which is lower. This implies that comparison must be made between the market value and the cost of the marketable securities.

As a result, if the cost is less than the market value, the securities appear on balance sheet at cost. In case the cost is more than market value at the time of finalization of accounts the necessary an adjustment should be made in the following entry:

Date	Particulars	Dr.	Cr
31^{st}, Dec.,	Loss to reduce marketable securities cost to market value A/C Dr To Provision to reduce marketable securities to market value A/c	xxx	xxx

By definition, marketable securities represent highly liquid assets. As such, their financial statement presentation is of special interest to creditors and other analysts concerned with a firm's debt-paying ability. In the current asset section of the balance sheet, these temporary investments may be listed in one of two ways:

(1) At cost, with a parenthetical(بين قوسين) notation showing current market value, or

(2) At lower-of-cost-or-market (الكلفة أو السوق أيهما اقل), which requires the establishment of a separate valuation account for reduction of the asset. This method is not allowed for income tax purposes.

◆ **Example:**

On 31st December, 2019 the market value of the 40 shares of Gulf Bank was IQD 15000 although its cost is IQD 15960. The adjusting entry to reduce the cost to the market value is as follows:

Solution:

Date	Particulars	Dr.	Cr
31st Dec. 2019	Loss to reduce marketable securities cost to market value A/c Dr. To Provision to reduce marketable values of securities A/c	960	960

The anticipated Loss (i.e. IQD 960) is transferred to profit and Loss account as follows:

Date	Particulars	Dr.	Cr
31st ,Dec. 2019	Profit and Loss A/c Dr. To Loss to reduce cost to market value of securities A/c	960	960

Consequently on Balance sheet, the Marketable securities appear in current assets group as follows:

Balance Sheet as at 31 -12 – 2019

Assets	IQD	IQD	Liabilities	IQD
Marketable securities (shares) Less Provision to reduce cost to market value	15960 (960)	15000		

5- **CASH AND BANK RECONCILIATION**

النقد ومطابقة البنك

Cash consist of coins (مسكوكات) and currency (عملة), cheques money orders, and money on deposit in bank, including deposits in current or savings accounts and time deposits, Cash includes any item that banks will accept for immediate deposit; thus, post - dated cheques are not cash.

The comparison between the real cash balance and its book balance may be made interesting during the fiscal year as daily, weekly, and monthly or by the year end as a part of finalization process. As a result of such a comparison, the difference between the real balance and book balance of cash is usually recorded in an account entitled "cash shortage & overage"(فائض وعجز النقد).

A- Cash shortage & overage **عجز وفائض النقد**

Cash shortage and overage balance is debit in the books when the real cash amount is less than the cash balance in the books, and it is credit when the real cash balance is more than book balance of cash.

(1) Cash shortage & overage during the year عجز وفائض النقد خلال السنة

The simplest example of it is the cash sales. If the actual cash received from sales is less than the amount indicated by cash sales register, the entry in the books would be as follows:

Date	Particulars	IQD	IQD
	Cash A/c Dr. Cash shortage & overage A/c Dr. To Sales A/c	xxx xxx	 xxx

◆ **Example:**

Suppose on 5th, January, 2020, the sales day book shows that cash sales amounted to IQD 30000, the really cash received from sales is IQD 29980. The entry in the books is as follows:

Date	Particulars	IQD	IQD
5th, Jan, 2020	Cash A/c Dr. Cash shortage & overage A/c Dr. To Sales A/c	29980 20	 30000

On the contrary, if the cash received from selling goods of IQD 30000 is more, say IQD 30015, the entry to be passed in journal is as follows:

Date	Particulars	Dr. IQD	Cr. IQD
	Cash A/c Dr. To Cash shortage & overage A/c To Sales A/c	30015	 15 30000

(2) Cash Shortage & Overage by the Year End عجز وفائض النقد خلال نهاية السنة

As a part of auditor's duties implying verification, and checking the accounts in order to certify that the final accounts are true and fair, a comparison between the real cash available in treasury and cash balance in the books is made also by him, in case shortage is found, it is usually recorded in the books as follows:

Date	Particulars	IQD	IQD
	Cash shortage & overage A/c Dr To Cash A/c	xxx	 xxx

In case of discovering that overage of cash exists, it is recorded in the books as follows:

Date	Particulars	IQD	IQD
	Cash A/c Dr To Cash shortage & overage A/c	xxx	 xxx

By the year end "Cash shortage & overage" balance, if reasonable, should be transferred to the profit and loss account. If its balance is credit, it is considered as revenue. If it is debit, it is considered as administrative and

general expenses. In case the balance amount of cash shortage and overage in un-reasonable (i.e. large), it must be investigated.

◆ **Example:**

On 31st, December, 2019, it was found that real cash balance is IQD 2800000, while the book balance of cash is IQD 3000000. The shortage (i.e. IQD 200000) is recorded in Journal as:

Date	Particulars	Dr.	Cr.
	Cash shortage & overage A/c Dr To Cash A/c	200000	 200000

This entry makes real balance and book balance of cash equal. Assuming that the amount of cash shortage is relatively large. The investigation thereof showed is for the following reasons:

(a) **Cash payment of IQD 100000 as wages but not recorded in the books**. This transaction should be recorded by the following adjusting entry:

Date	Particulars	Dr.	Cr.
	Wages A/c Dr To Cash Storage & overage A /c	100000	 100000

(b) **Deficiency in internal control system of cash**. This deficiency enabled **the** cashier to rob IQD 60000 from treasury). This reason is passed in journal by the following entry

Date	Particulars	Dr.	Cr.
	Accounts Receivable/Cashier A/c Dr To Cash Shortage & overage A/c	60000	60000

The rest of shortage (i.e.: IQD 40000) is treated as a loss transferred to the profit and loss account because its amount is small and it lacks reasoning. The transfer entry thereof is:

Date	Particulars	Dr.	Cr.
	Profit and Loss A/c Dr To Cash Shortage & Overage A/c 40000	40000	40000

(3) Investment of Idle Cash استثمار النقد الفائض

Idle cash is defined as those funds which will not be needed in the immediate future for the daily operations of the business. Such funds are invested in marketable securities (generally short-term notes or bonds) to generate additional income. Marketable securities are those which have relatively stable prices and are salable on a day-to-day basis.

B- Bank Reconciliation Statement **كشف مطابقة البنك**

When a firm deals with a Bank, it keeps records of its Bank transactions in the Bank column of the cash book. Similarly, the Bank also keeps a record of the same transactions in its own Book.

As such, theoretically both the balance must agree. But in practice this does not happen. Bank balance as shown by bank column of the Cash Book.

(1) Reconciliation of Bank Balances **مطابقة أرصدة البنك**

The cash balance on a company's books seldom (نادرا ما) agrees with the balance on its monthly bank statement. Differences between these two amounts result from one or more of the following:

1. Cash received at the end of the month which is not deposited in the bank until the following month (deposit in transit).
2. Checks issued by the company which have not cleared the bank (Accrued checks).
3. Bank charges for services rendered during the past month.
4. Notes receivable collected by the bank.
5. Recording and handling errors made by either the bank or the company.

The process of reconciling these two amounts requires a review of all cash transactions for the period on the company's books and on the bank statement. Many differences involve time lags which are self-correcting over time. However, errors on the company's books must be corrected, and the bank must be advised if there are errors in its records.

(2) Forms of Bank Reconciliation **أشكال مطابقة البنك**

There are two principal forms for reconciling bank accounts:

1. Reconciling the bank balance to the book balance,
2. Reconciling both bank and book balances to corrected balances.

The first form, that used in the preceding reconciliation, is similar to the form generally used in reconciling other accounts. It simply shows the items which account for the difference between the bank balance and the book balance.

The second form has two sections, one pertaining (يلائم، يتعلق بـ) to the bank data, the other to company data. If the bank makes an error such as charging the account for a check drawn by another company, it is not necessary for the company to make an entry on its books. The bank will ordinarily make the correction of its balance promptly after the company has

notified the bank. Many accountants prefer this form because all reconciling items which require entries on the books are shown together in the company section, which facilitates recording.

Exercise (3)

The record of Al-Zamman Printing Company showed the following information for the month of April, 2020(Amounts in IQD thousands):-

(1) Cash balance per books April 30, IQD 30000.

(2) Cash balance per bank statement April 30, IQD 25700.

(3) On April 30, the following checks were Accrued:-

Check No. 510 IQD 92

Check No. 541 IQD 986

Check No. 547 IQD 178

Check No. 601 IQD 82

(4)The following two customer checks deposited by Al-Zamman were returned to the company and were marked NSF (not sufficient funds):-

ABC shirts IQD 600

Sign Inc. IQD 1680

(5) A deposit of IQD 6200 was made on April 30 but was not included on the bank statement.

(6)The bank service collected a IQD 4000 note for Al- Zamman from the uniform company.

(7) The bank service charge was IQD 50.

(8)The bank charges Al-Zamman IQD 1054 in error.

Required:-

(1) Prepare bank reconciliation as of April 30, 2020.

(2)Prepare the adjustment entries.

Solution:

(1) Bank Reconciliation

Particulars	IQD	IQD	Particulars	IQD	IQD
Balance per books		30000	Balance per bank		25700
Add: Note receivable collected		4000	Add:		
			Deposit in transit	6200	
			Bank error	1054	7254
Total		34000	Total		32954
Less:			Less:		
NSF check	2280		No.510	92	
Service charge	50	(2330)	No.541	986	
			No.547	178	
			No.601	28	(1284)
Adjusted Balance		31670	Adjusted Balance		31670

(2) Entries

Date	Particular	Dr.	Cr.
	Cash A/c Dr.	4000	
	To Note Receivable A/c		4000
	NSF Check A/c Dr.	2280	
	Service charge A/c Dr.	50	
	To Cash A/c		2330

Exercise (4)

Prepare the bank reconciliation of Salem Insurance Agency as of November, 30. 2020 using the following information and prepare appropriate adjusting entries.

1- Balance per depositor's records IQD 23100.

2- Balance per bank statement IQD 33680.

3- Accrued checks IQD 4884.

4- Erroneous recording of check No.1558 for telephone expense IQD (342) Actual amount issued by check IQD 234.

5- Bank service charge IQD 12.

6- Deposit in transit IQD 5520.

7- Note collected by bank aching as Salem's agent IQD 12800.

8- NSF check of Hussein IQD 1680.

Solution:

◆ **Bank Reconciliation Statement**

Particulars	IQD	IQD	Particulars	IQD	IQD
Balance per depositor's records		23100	Balance per bank statement		33680
Add:			Add:		
Note receivable collected			Deposit in transit		
Error in check (No.1558)					5520
	12800				
	108	12908			
Total		36008	Total		39200
Deduct:			Deduct:		
Bank service charge	12		Accrued checks		(4884)
NSF check of Hussein	1680	(1692)			
Adjusted Balance		34316	Adjusted Balance		34316

◆ **Adjusting Entry**

Date	Particulars	Dr.	Cr.
	Cash A/c Dr.	12908	
	To Note receivable A/c		12800
	To Telephone Expense A/c		108
	Bank service charge Dr. A/c	12	
	Accounts Receivable Dr. A/c	1680	
	To Cash A/c		1692

Terminology المصطلحات

Accounts receivable	حسابات مدينة	Idle cash	نقد فائض
Accrued amounts	مبالغ مستحقة	Instrument	اداة
Acquisition	اقتناء	Interest Earned	فائدة محصلة
Allowances	سماحات	Inventory	مخزون
Amount due	مبلغ مستحق	Inventory Systems	نظم الجرد
Bank Reconciliation	مطابقة مصرفية	Inventory Valuation	تقييم المخزون
Banking institutions	تعليمات مصرفية	Last-In First-Out	مايدخل اخيرا يخرج اولا
Bearer	حامل شيء	Long - term Securities	اسهم طويلة الاجل
Beneficiary	مستفيد	Lower of Cost or Market	الكلفة او السوق ايهما اقل
Bill of exchange	ورقة تجارية	Marketable Securities	اسهمقابلة للتداول
Bonds	سندات	Maturity	تاريخ الاستحقاق
Brokerage fees	اتعاب وساطة	Merchandising business	منشاة تجارية
Cash discount	خصم نقدي	Notes Receivable	اوراق قبض
Cash overage		Periodic inventory	جرد دوري
Cash shortage	نقص نقدية	Perpetual inventory	جرد مفاجيء
Cheques.	شيكات	Probability of collection	احتمالية التحصيل
Commercial paper	ورقة تجارية	Promissory notes	أوراق تعهد
Current assets	اصول متداولة	Provision for Doubtful A/cs	مخصص حسابات مشكوك فيها
Customer	مستهلك	Raw Materials	مواد اولية
Department stores	مخازن اقسام	Retail establishments	منشاة تجزئة
Direct write-off	شطب مباشر	Retail Method	طريقة التجزئة
Discounting notes	اوراق مخصومة	Sales returns	مردودات مبيعات
Doubtful Accounts	حسابات مشكوك فيها	Securities investment	استثمار اسهم
Drawee	المسحوب علية	Short-term obligations	سندات طويلة الاجل
Drawer	الساحب	Specific Identification	التمييز الخاص
Finished Goods	بضاعة تامة	Time of collection	وقت التحصيل
First-In, First-Out	مايدخل اولا يخرج اولا	Trade discounts	خصم تجاري
Funds	اموال	Trade receivables	ذمم تجارية
Goods in Process	بضاعة تحت التشغيل	Uncollectibles	غير محصلة
Gross Profit	مجمل الربح	Weighted – Average	المعدل الموزون

QUESTIONS AND EXERCISES

A- QUESTIONS

1-Fill the following blanks

(1) Inventory is reported in the balance sheet as a (n) ……………….asset

(2) When a daily record is kept of the inventory balance after purchases and sales are made ………….. Inventory method is being used.

(3) Retail businesses generally use the…………. method to determine inventory value.

(4) The inventory valuation method which assumes that goods are sold in the order in which they are received is called the……………… method.

(5) The inventory valuation method which assumes that goods are sold in acquisition is known as the……………..method.

(6) The inventory valuation method which is based upon the determination of unit price, by dividing the total cost of goods available for sale by the total number of available units is known as the ……………….method.

(7) A company should select the……………inventory method if it wishes to keep its taxes to minimum.

(8) Cost of goods available for sale less ending inventory is equal to……………

(9) If ending inventory is understated, net income will be……………..

2- Explain theoretically and using entries the periodic inventory system and the perpetual inventory system.

3- What is meant by Investment in securities?

4- Classify the Securities and explain each class thereof?

5- What is the basis of valuation of securities by the year end?

6- Define a cheque, promissory note, bill of exchange.

7- In preparing a Book Reconciliation for Al-Hilal Corporation, you note a number of reconciling items. For each item listed below , place an (X) in the appropriate column to indicate how you would treat it in order to produce equal adjusted balances for the books and bank.

No.	items	Increase Book Balances	Decrease Book Balances	Increase Bank Balances	Decrease Bank Balances	No effect
1	Accrued check					
2	Accrued certified check					
3	Deposit in transit					
4	Proceeds of a customer note collected by the bank					
5	Proceeds of a loan made to the company by the bank					

No.	items	Increase Book Balances	Decrease Book Balances	Increase Bank Balances	Decrease Bank Balances	No effect
6	A customers bounced check					
7	Bank service charge					

8- Choose the correct answer:

(1) Which of the following statements is correct about promissory notes

a. The party making the promise to pay is called the payee.

b. The party to whom payment is to be made is called the maker.

c. A Promissory note is a negotiable instruction.

d. A Promissory note is more liquid than an account receivable.

(2) If cement company accepts IQD 1000000, 3- month, 10% promissory note in settlement of an account. The entry to record this transaction is to debit:

a. Notes receivable by IQD 1030000.

b. Notes receivable by IQD 1000000

c. Accounts receivable by IQD 1030000.

d. Accounts receivable by IQD 1000000

(3) If Arabic Emirates Company holds $ 10000000, 120-day, 9% notes, the entry made by the Arabic Emirates company is to credit:

a-	Cash	10300000
b-	Notes receivable	10300000
c-	Notes receivable	10000000
	Interest revenue	300000
d-	Cash	9700000
	Interest expense	300000

(4) We credit cash in bank in the following **except:**

(a) Purchase goods by cheque, (b) Pay salaries by cheque, (c) Collect a revenue by cheque, (d) Pay a liability by cheque.

(5) The promissory note is a note payable when:

(a) Sale an asset by a promissory note.

(b) Collect revenue by promissory note.

(c) A client pays his obligation by endorsing a promissory note.

(d) An expense is settled by a promissory note.

(6) Which of the following are not from commercial papers?

(a) Accounts receivable (b) Cheques.

(c) Promissory note (d) Withdrawals

(7) When a company purchased a machine by a promissory note we credit:

(a) A machine A/c (b) Notes receivable (c) Notes payable (d) Cash

B- EXERCISES

1- The White Sea Company had inventory and purchases for the year as follow:

Particulars	Units	Costs	Amounts IQD
Inventory ,January 1	2000	2.00	4000
Purchase No.1	1000	2.50	2500
Purchase No.2	1500	2.75	4125
Purchase No.3	1500	2.85	4275
Purchase No.4	2000	3.00	6000
Total	8000		20900

The physical inventory count at December was 3000 units.

Required: Compute the cost of the December 31 inventory based on the following inventory methods:

(a) FIFO

(b) LIFO

(c) Average Cost.

2- (a) Yasser Mussa purchased goods IDs 5000 on credit from Mohamed Ahmed 10% trade discount on 2 nd, March 2019.

(b) Mohamed signed a promissory note to settle his obligation for Yasser.

Required:

(1)Record the above two transactions in Yasser journal and then in Mohamed journal.

(2)Post the transactions to ledgers accounts for both of them.

3- Information necessary for the preparation of a bank reconciliation and related journal entries for the Stores Corporation at November 30 is listed below:

(1) The balance per records of the Stores Corporation is IQD 1042309.

(2) The bank statement shows a balance of IQD 915457 as of November 30.

(3) Two debit memorandum accompanied the bank statement: one for IQD 13 was for service charges for the month; the other for IQD 86460 was attached to an NSF (Not Sufficient Funds) check from Tahssen.

(4) The paid checks returned with the November bank statement disclosed two errors in the cash records. Check no. 832 for IQD 92348 had been erroneously recorded as IQD 93248 in the cash payments journal, and check No. 851 for IQD 6633 had been recorded as IQD 3366. Check No. 832 was issued in payment for a store display counter; check No. 851 was for advertising expense.

(5) A collection charge for IQD 10000 (not applicable to Stores Corporation) was erroneously deducted from the account by the bank.

(6) Cash receipts of November 30 amounting to IQD 62525 were mailed to the bank too late to be included in the November bank statement.

(7) Checks Accrued as of November 30 were as follows: No. 860 for IQD 16000, No. 870 for IQD 7520, and No. 880 for IQD 12280.

Required:

1) Prepare bank reconciliation at November 30.
2) Prepare the necessary adjusting entries in general journal form.

4- The bank statement received by Mounir at the end of Nov. 2019 shows a balance of IQD 6380(Amounts in IQD thousands). The cash account of Mounir shows a balance of IQD 7190 at the same date.

Analysis of Mounir's records together with the bank statement shows the following:

(1) The following checks were issued by Mounir but do not appear on the bank statement:

check No. 3025 for IQD 20050

check No. 3026 for IQD 31250

check No. 3028 for IQD 48700

(2) A deposit of IQD 2000 was made on Nov. 30, but does not appear on the bank statement

(3) The following notes were attached to the bank statement:

◆ Credit note No. 116 for IQD 500 collected on a note receivable and added to Mounir's account

◆ Debit note No. 20 for a NSF check drawn by Walled - one of Mounir's customer - for IQD 300. The check had been deposited by Mounir on Nov. 21.

◆ Debit note No. 1311 for IQD 10 service charges.

Required:

a) Bank reconciliation statement.
b) The cash balance which should appear on Mounir's balance sheet at Nov. 30, 2020.

5- Suzan Equipment routinely invests seasonally idle cash in common stock. The following transactions took place in 2019.

1) Jan, 5th Suzan purchased 1000 shares of Jamal tools Company for IQD 1500 per share. A IQD 75000 broker's Commission was paid.
2) March, 4th Suzan bought 2500 shares of Iraq steel for IQD 4500 per share plus a broker's Commission of IQ 120000.

3) April, 15th A IQD 5000 per share quarterly dividend was received on the Jamal stock.
4) June, 12th thirty shares of the Jamal stock were sold. The net cash received after deducting broker's fees was IQD 48000
5) July. 14th Fifty shares of Jordan stock were sold for IQD 5600 per share. A brokerage Commission of IQD 200 per share must be deducted from the sales price in determining the amount received by Suzan.
6) Oct. 15th IQD 5000 per share quarterly dividend was received on the Jamal stock.
7) Dec. 31st IQD 200 per share annual dividend was received on the Iraq stock.
8) Dec. 31st entries were made to close all temporary accounts.

Required:

(a) Prepare Journal entries to record the transactions and events listed above (your entries should be supported by clearly Labeled calculations).

(b) Assume that on December 31. 2019 the market price of the Iraq stock was IQD 1600 per share and the market Iraq of the price stock was IQD 5500 per share, at what amount will the marketable securities appear on the 31st December, 2019. Balance sheet?

☞ **Answers to question (7):**

No.	items	Increase Book Balances	Decrease Book Balances	Increase Bank Balances	Decrease Bank Balances	No effect
1	Accrued check				x	
2	Accrued certified check					x
3	Deposit in transit			x		
4	Proceeds of a customer note collected by the bank	x				
5	Proceeds of a loan made to the company by the bank	x				
6	A customers bounced check		x			
7	Bank service charge		x			

☞ **Answers to question (8):**

No	a	b	c	d
(1)				x
(2)		x		
(3)			x	
(4)			x	
(5)				x
(6)	x			
(7)			x	

☞ **Answer to Exercise (1)**

a) FIFO: IQD 8850 {(2000@ IQD 3.00) + (1000@ IQD 2.85) = IQD 6000 + IQD 2850}

b) LIFO: IQD 6500 [(2000@ IQD 2.00) + 1000 @ IQD 2.50) = IQD 4000 + IQD 2500]

c) Average cost : IQD 7830 [(3000 @) IQD 2.61), from (IQD 20900 ÷ 8000 = IQD 2.61)]

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CHAPTER

(5)

OWNER'S EQUITY

AND CURRENT LIABILITIES

1- Owner's Equity

- **Capital**
- **Treatment of Owner's Equity**

2- Current Liabilities

- **Definition of Current Liabilities**
- **Nature of Current Liabilities**
- **Valuation of Current Liabilities**
- **Presentation of Current Liabilities**
- **Questions and Exercises?**

CHAPTER

(5)

OWNER'S EQUITY

AND CURRENT LIABILITIES

حقوق الملكية والمطلوبات المتداولة

Owner's equity is the residual interest in the assets of a business entity that remains after deducting the entity's liabilities. Also called residual equity or, for corporations, stockholders' equity. While the Current liabilities are the debts and obligations expected to be satisfied within one year or within the normal operating cycle, whichever is longer.

1 - OWNER'S EQUITY حقوق الملكية

The owner's equity in a business represents the financial resources invested by the owner, and is equal to the total assets minus liabilities.

There are three common types of business organizations:

(1) Single proprietorship (منشاة فردية) which is owned by a single person.

(2) Partnership (شركة تضامن) is association of two or more persons to carry on as co - owners a business for profit.

(3) Corporations (شركة مساهمة) which are fewer in number but most in money volume and their economic impact are clearly the most important. These corporation many issue shares and / or bonds.

A- Elements of owner's equity عناصر الملكية

Commonly, the owner's equity in the corporation composes of three items as follow:

- Capital
- Retained earning
- Reserves

1 - Capital رأس المال

Capital represents the amount of financial resources invested by the owner (s).

In single proprietorship (منشاة فردية) which is owned by a single person, if the owner is Mr.(x) we open(x's) capital account and credit it by the investments of Mr.(x) and debit the assets accounts given to the entity.

In partnership (شركة تضامن), we open a capital account to each partner (A, B), but in corporations the paid up capital account is credited by the amount of shares issued and subscribed and paid up by the corporation's shareholders.

(1) Ordinary Shares (Common Stock) **الأسهم العادية**

A share is a certificate (شهادة) of ownership in a corporation. Shareholders (stockholders) are the owners of a corporation. There are two types of shares (stocks): Common stocks and Preferred stock.

Common stocks (ordinary shares) (الأسهم العادية) give the right to vote (حق التصويت) in the stockholders' meetings (اجتماعات) and managerial decisions.

(2) Preferred Stock **الأسهم الممتازة**

A preferred stock is a certificate of long- term debt. A preferred stock is a debt security that promises to pay interest and principal on predetermined dates. Preferred stocks are debt securities issued by corporation if it needs financing and doesn't need to increase its shareholding capital by issuing new shares.

The rights of preferred stock holder are:

- Interest which is paid before dividends.
- Principal which depends on maturity.
- First priority in case of bankruptcy.

Preferred stock (الأسهم الممتازة) has a preference as to payment of dividends and in the distribution of assets in case of liquidation (تصفية).

The accounting treatment for issuing and selling and 50000 common shares of (one) IQD par value is:

Date	Particular	Dr. IQD	Cr. IQD
	Cash A/c Dr.	50000	
	To common stock A/c		50000

If a corporation accepts IQD 100000 buildings and IQD 300000 equipment in exchange for its 80000 shares (5) IQD par value, the entry will be:

Date	Particular	Dr. IQD	Cr. IQD
	Buildings A/c Dr.	100000	
	Equipment A/c Dr.	300000	
	To Common stock A/c		400000

Organization costs are legal fees and any amounts paid to secure a corporation's charter (رصانة، حصانة، امتياز). It represents an intangible asset and should be written of (amortized) over the estimate of benefit period which is five years for taxation purposes in Iraq.

Date	Particular	Dr. IQD	Cr. IQD
	Organization costs A/c Dr.	20000	
	To Common stock A/c		20000

(Gave the promoters 20000 shares of (one) IQD par value in exchange for services in getting the corporation organized).

2- Retained earning الأرباح المحتجزة

Retained earnings are the equity of the stockholders generated from the income producing activities of the business and kept for use in the business.

3- Reserves

Reserves are as a form of distributions of profits, they are also percentages deducted from the net income for use as a legal reserve, an improvements reserve, contingents reserve, expansions reserve, etc.

B- Treatment of Owners' Equity

المعالجة المحاسبية لحقوق الملكية

Since equities (liabilities and owner's equity) represent the sources financing for business organizations, the appropriate accounting intent is to credit these equity accounts.

When we look to the balance sheet equation which summarized elements of accounting: assets, liabilities, owner's equity:

Assets = liabilities + owner's equity

Owner's equity is more than capital; it represents the net assets; (assets - liabilities) as follows:

Net Assets =Total Assets - Liabilities

(1) Owner's equity in single proprietorships حقوق الملكية في المنشأة الفردية

Particulars	Amounts
The capital of the owner (Mr. Musa)	15000
+ Net income (net loss)	10000
- Withdrawals	(5000)
Net owner's equity	20000

(2) Owner's equity in partnerships حقوق الملكية في شركات التضامن

Particulars	Amounts
Ali	25000
Firas	15000
Total	40000

Partners' capital statement الشركاء كشف رأس المال

Explanation	Ali	Firas	Total
Capital, Jan. 1	18000	9000	27000
Add: Additional investment	2000	--------	2000
Net income	6000	6000	12000
Less: Drawings	(1000)	-------	(1000)
Capital Dec. 31	25000	15000	40000

(3) Owner's equity in Corporations حقوق الملكية في الشركات المساهمة

Particulars	Amounts
Authorized and paid in capital 3000000 shares x IQD1	3000000
Legal reserves	500000
Retained earnings	1000000
Total shareholders' equity	4500000

Paid - in capital (رأس المال المدفوع) is the term used to describe the total amount of cash and other assets paid to the corporation by stockholders in exchange for capital stock.

Retained earnings (الأرباح المحتجزة) are net income retained in a corporation. **For example**, assuming that net income for Aurok Aluminum Company is IQD 1000000 for the first year of operations, the closing entry is:

Date	Particulars	Dr.	Cr.
	Income summary A/c Dr. To Retained Earnings A/c	1000000	 1000000

If the balance of IQD 6000000 in common stocks at the end of its first year, its stockholders' equity section is as follows:

Paid - in capital رأس المال المدفوع

Particulars	Amounts
Common stock	6000000
Retained earnings	1000000
Total stockholders' equity	7000000

◆**Example**:

Suppose Arab Company issues 9000 Bond, IQD 100 per Bond, 10% interest dated Jan.1. 2020. The journal entry to record the sale is:

Date	Particular	Dr. IQD	Cr. IQD
2020 Jan, 1	Cash A/c Dr. To bonds payable A/c	900000	 900000

If the interest is paid quarterly, the interest must be paid on 1st April 2020 is:

900000 x 10% x (3/12) =22500

Date	Particular	Dr. IQD	Cr. IQD
April 1st, 2020	Bond interest expense A/c Dr. To cash A/c (To record payment of interest)	22500	 22500

If the market interest rate is less than the bond contractual interest rate, bonds sell at premium.

◆ **Example**:

Suppose Arab Company in previous example sold those bonds at IQD 105 (105% of face value) ,the journal entry is:

Date	Particular	Dr. IQD	Cr. IQD
	Cash A/c Dr. To bonds payable A/c To premium on bonds payable A/c 900000 x105% = 945000 945000 – 900000 = 45000	945000	 900000 45000

If the market interest rate is more than the bond contractual interest rate, bonds sell at discount.

◆ **Example**:

Suppose in exercise (1), the Arab Company sold that bonds at IQD 97. The journal entry is:

Date	Particular	Dr. IQD	Cr. IQD
	Cash A/c Dr. Discount on bonds payable A/c Dr. To bonds payable A/c 900000 x 97% = 873000 900000 – 873000 = 27000	873000 27000	 900000

The journal entry to record the redeeming bonds of 1000000 face value maturity is:

Date	Particulars	Dr. IQD	Cr. IQD
	Bonds payable A/c Dr. To cash A/c	1000000	 1000000

The entry to convert IQD 50000 bonds to 40000 shares at one IQD par value is:

Date	Particular	Dr. IQD	Cr. IQD
	Bonds payable A/c Dr. To common stocks A/c To Paid in capital in excess of par value A/c	50000	 40000 10000

2- CURRENT LIABILITIES (المطلوبات المتداولة (الخصوم))

A liability is an obligation (التـزام) to convey assets or perform services at some future date. A company's debts or obligations those are due within

one year. Current liabilities appear on the company's balance sheet and include short term debt, accounts payable, accrued liabilities and other debts.

A- Nature of Current Liabilitiesطبيعة المطلوبات المتداولة

Current liabilities include (1) those obligations which will require payment from existing current assets and (2) all other obligations that are to be paid from current assets within one year.

Generally, current liabilities arise from day-to-day business operations (i.e. Accounts Payable, Salaries Payable, etc.). Others may result from the need for short-term loans (i.e. Notes Payable) and still others from management created long-term obligations having a definite relationship to a short-term period (i.e. current maturity values of long-term loans).

Proper recognition and accurate measurement of all current liabilities are necessary in order to avoid overstatement of assets, long-term liabilities or net income (i.e. the entire balance sheet equity section). Further, current and long-term liabilities must be accurately distinguished so that net working capital will be properly stated.

B- Definition of Current Liabilities تعريف المطلوبات المتداولة

Financial Accounting Standards Board (FASB) defined liabilities as probable future sacrifices (تضحية) of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or event.

APB (Accounting Principles Board) Statement No. (4) defined liabilities as:

Economic obligations of an enterprise that are recognized and measured in conformity with generally accepted accounting principles.

Current liabilities are obligations whose liquidation is expected to the use of existing current assets or the creation of other current liabilities.

Examples include most account payables, notes payable, accrued expenses, and the current portion of unearned revenues.

(1) Accounts payable (creditors) حسابات دائنة

Accounts payable are liabilities incurred in obtaining goods and services from suppliers in the ordinary course of business.

(2) Notes payable أوراق دفع

Notes payable are cash loans obtained from banks and other lending institutions represent current liabilities if they are due in the succeeding

operating period. Notes payables represent promissory notes (ورقة كمبيالة) obliged and signed by the entity.

(3) Bank Overdraft **السحب على المكشوف**

The bank overdraft is a method of financing (borrowing money from a bank) used extensively in which an arrangement made between the customer and the bank manager, where by the customer is allowed to draw more money out of his account than he has to his credit.

C- Valuation of Current Liabilities **تقييم المطلوبات المتداولة**

Current liabilities (i.e. legal debts and obligations) are generally recorded in the accounts and reported in financial statements at face value. In those rare instances where exact amounts are not available, estimates are made to determine the present value of a future outlay, using the discount method described in APB Opinion No. 21, "Interest on Accounts Receivables and Payables".

Four distinct categories can be identified with respect to the element of uncertainty which affects the valuation of these future payments as current liabilities: definitely determinable liabilities, liabilities arising from operating results, estimated liabilities and contingent liabilities.

(a) Definitely Determinable Liabilities **المطلوبات المحددة بشكل نهائي**

These liabilities generally originate from contracts or legal statutes which fix the amount of the obligation and its due date rather precisely. Therefore, the basic accounting problem is determining that the obligation does in fact exist and that it is properly recorded.

(1) Trade Accounts and Notes Payable **حسابات تجارية وأوراق دفع**

Procedures for handling the recording and control of trade accounts and trade notes payable center around purchase journals, voucher registers, accounts payable ledgers or open invoice files, etc. Generally these records, or any combination of them, will yield ample evidence as to the existence, amount and due date of unpaid obligations. For statement purposes it is important that particular attention be paid to transactions occurring near the end of one accounting period and the beginning of the next so that the liability for goods received is recorded in the same period as the merchandise is included in inventory.

◆ **Example:**

Suppose that merchandise with a valuation of IQD 1000 is received a few days before the end of one accounting period. If it is included in the inventory at the end of that period but is not included among that period's

liabilities, the liabilities for that period will be understated and the net profit for the period will be overstated by IQD 1000.

Cash discounts applicable to vendors' invoices should be anticipated and recognized by a debit to Allowance for Purchase Discounts, a contra account against Accounts Payable-Trade on the balance sheet. This procedure is similar to that for the valuation of accounts receivable.

(2) Loan Obligations سندات قرض

Items of this type include notes and loans payable and any portion of long-term debt that will mature during the coming operating cycle. However, if such portion of long-term debt will not require the use of current funds (such as retirement through the operation of a special-purpose sinking fund), the debt should be reported as noncurrent with an appropriate note.

According to APB Opinion No. 21, if no interest is explicitly stated, or if the rate of interest is unreasonably low, then interest must be imputed (that is, it is understood to be included in the total). If adequate interest is not included, the cost of the asset will be over-stated and interest expense understated. The APB opinion does not apply to payables or receivables arising with suppliers or customers in the normal course of business which are due on ordinary trade terms.

◆ **Example:**

On June 30, 2020, the Bushra’s Company issues a IQD 15000, one-year, non-interest-bearing note to the Adams Roofing Corporation for the purchase of a roofing machine. If the machinery and note payable are recorded at the face value of the note; both the asset and the liability will be overstated. If the prevailing rate of interest is 8, 5%, the present value of the note is IQD 13824.88 (IQD 15000 ÷ 1.085). The entry on June 30 is:

Date	Particular	Dr. IQD	Cr. IQD
	Machinery A/c Dr. Discount on Notes Payable A/c Dr. To Notes Payable A/c (To record the present value of a non-interest-bearing note of IQD 15000.00 to the Adams Roofing Corporation. Present value of note is IQD 13824.88).	13824.88 1175.12	 15000.00

For financial statements prepared before the maturity of the note, Interest Expense and reduction of Discount on Notes Payable must be recognized. At December 2020, the entry is:

Date	Particular	Dr. IQD	Cr. IQD.
	Interest Expense A/c Dr.	587.56	
	To Discount on Notes Payable A/c		587.56
	(To record interest on note to December 31, 2020)		
	(13824.88 x 8.5% x 6/12)		

For balance sheet presentation, the balance of Discount on Notes Payable is subtracted from Notes Payable.

(3) Dividends Payable **حصص دائنة**

Dividend obligations are created only by action of a company's board of directors. The declaration by the board represents a legal obligation to pay the cash dividend in the amount specified at the specified time. It always creates a current liability.

(4) Accrued Liabilities **مطلوبات مستحقة**

Unpaid obligations resulting from contractual commitments (e.g. payrolls) or government legislation (e.g. taxes) are referred to as accrued liabilities or accrued expenses. Taxes are generally material in nature and are usually shown under a separate heading among current liabilities. Some accruals (e.g. accrued interest) are often combined with their respective liabilities, while most others are shown in a combined form under a single heading. Some types of accruals require special attention:

Payroll and Payroll Related Liabilities**جدول الرواتب المرتبطة بالالتزامات**

Generally, employees are paid after services have been performed, thus creating a liability as of the end of any accounting period for amounts earned but not paid.

- Social Security ضمان اجتماعي
- Unemployment Insurance تامين البطالة
- Vacation Pay اجر العطلة

Property Taxes **ضرائب الملكية**

These annual taxes arise from the ownership and/or use of real or personal property, and should be recorded as a pro-rated (بنسبة الحصة) liability over the established tax year.

(b) Liabilities Arising from Operating Results

مطلوبات ناتجة عن نتائج التشغيل

Some liabilities cannot be measured until the results of operations are known. In these cases, the basic accounting problem is estimating appropriate amounts for interim monthly or quarterly statements.

(1) Income Taxes ضرائب دخل

This liability applies only to corporate, estate and trust income. Earnings from the operation of sole proprietorships and partnerships are treated as personal income of the parties involved, and generally require no disclosure of a liability.

(2) Bonus Agreements اتفاقيات بعلاوة (مكافاة)

This category includes contractual obligations covering a variety of periodic items such as rents, royalties and additional employee compensation (i.e. profit-sharing). Bonuses which depend on revenues can be easily computed.

(c) Estimated Liabilities مطلوبات مقدرة

This category refers to liabilities which are indeterminate as to amount and due date, but which exist and can be estimated with a reasonable degree of accuracy as long as there is objective evidence on which to base the amount of such obligation. Such liabilities may be either current or long term. The two main groups of estimated liabilities are discussed below.

◆Liabilities for Premiums and Other Customer Advances

مطلوبات عن أقساط ودفعات المستهلكين

Premium coupons, tokens, tickets, certificates, etc. which entitle the holder to merchandise, cash, or the performance of a service at some future time are considered customer advances. Such obligations should appear as an estimated liability on the balance sheet of the issuing company.

◆Liabilities under Guarantees and Warranties مطلوبات بموجب ضمانات وكفالات

This liability group arises from product sales (e.g. cars, televisions, etc.) or contracts (e.g. rentals where the lessee must restore property to a specified condition on termination).

(d) Contingent Liabilities المطلوبات الطارئة (المحتملة)

The term contingent liabilities refer to potential future obligations which may or may not in fact materialize. It is thus distinguished from estimated liabilities, which do exist but are uncertain as to amount, due date and/or payee. Typical contingent liabilities include:

(1) Pending Lawsuits دعاوى قضائية معلقة

Litigation against a company is carried as a contingent liability until such time as the claim is actually settled (i.e. after all appeals, upon out-of-

court agreement). Lawsuits pending as of the balance sheet date are generally included as footnotes without mentioning Dinar values.

(2) Endorsement of Notes تظهير أوراق

When recourse is involved in discounting notes receivable or assigning accounts receivable, the company endorses such debts and may become liable in the event that the original debtor defaults.

(3) Income Taxes ضرائب الدخل

In the event that the Taxes Authorities fails (يخفق) to accept a company's tax return as submitted and assesses additional taxes, a contingent liability is created pursuant to an audit.

In reporting contingent liabilities, the sole objective is adequate disclosure of such contingency and if determinable, the amount involved. Disclosure in financial statements may be made by (1) a parenthetical comment following the item heading, (2) footnote, (3) inclusion of item among liabilities without extending a Dinar amount or (4) appropriation of retained earnings.

D- Presentation of Current Liabilities المطلوبات المتداولة عرض

There are two considerations with respect to current liabilities in the balance sheet:

(1) Listing Order الترتيب المجدول

Current liabilities are generally listed according to amount (largest to smallest), although they may be listed by due dates when differences in maturity are significant. Liquidation priorities (i.e. taxes, wages, etc.) should be ignored in the interest of the going-concern assumption.

(2) Detail of Disclosure تفاصيل الإفصاح

The kinds of headings used under Current Liabilities will depend on the purpose of the balance sheet.

The following classification is generally acceptable:

Current Liabilities	IQD
■ Notes Payable to Banks	xxx
■ Notes Payable to Trade Creditors	xxx
■ Accounts Payable to Trade Creditors	xxx
■ Other Notes and Accounts Payable	xxx
■ Estimated Income Taxes Payable	xxx
■ Other Accrued Liabilities	xxx
■ Amounts Due to Officers and Employees	xxx
■ Other Current Liabilities	xxx

Liabilities which will be liquidated by the issuance of capital stock should be included under stockholders' equity.

Terminology المصطلحات

Accrued Liabilities	مطلوبات مستحقة	Market	السوق
Bank Overdraft	السحب على المكشوف	Notes payable	اوراق دفع
Bankruptcy	إفلاس	Obligations	سندات
Bonds payable	سندات دائنة	Operating cycle	الدورة التشغيلية
Bonus Agreements	اتفاقات بعلاوة(مكافاة)	Operating Results	نتائج التشغيل
Capital	رأس المال	Ordinary shares	الاسهم العادية
Common stocks	اسهم عادية	Owner's equity	حقوق الملكية
Contingent Liabilities	مطلوبات طارئة	Ownership	الملكية
Contingent liability	التزام طاريء	Paid - in capital	راس المال المدفوع
Commitments	تعهدات	Parenthetical comment	توضيح بين قوسين
Corporation	شركات مساهمة	Partnership	شركة تضامنية
Current liabilities	مطلوبات متداولة	Payroll	جدول رواتب
Declaration	تصريح،بيان	Pending Lawsuits	دعاوى قضائية معلقة
Dividend obligations	سندات ربحية	Personal property	ملكية شخصية
Dividends Payable	حصص دائنة	Preferred stock	الاسهم الممتازة
Earnings	ارباح	Premium	علاوة
Elements	عناصر	Property Taxes	ضرائب ملكية
Accounts payable	حسابات دائنة	Pro-rated	بنسبة الحصة
Endorsement of Notes	تظهير الاوراق	Redeeming	استرداد، استهلاك
Estimated Liabilities	المطلوبات المقدرة	Reserves	احتياطيات
Footnote	هامش	Residual interest	فائدة متبقية
Government legislation	تشريع حكومي	Retained earnings	الارباح المحتجزة
Guarantees	ضمانات	Shareholders	المساهمين
Inclusion	تضمين	Single proprietorship	منشاة فردية
Listing Order	ترتيب مجدول	Social Security	ضمان اجتماعي
Income Taxes	ضرائب دخل	Stockholders	حملة الاسهم
Interest	فائدة	Trade Accounts	حسابات تجارية
Interest rate	معدل الفائدة	Unemployment	بطالة
Legal reserves	احتياطيات قانونية	Vacation Pay	دفع اجر العطلة
Liquidation	التصفية	Warranties	كفالات

QUESTIONS AND EXERCISES

A- QUESTIONS

1- Explain the following sentence "Equities are more than capital and more than owner's equity".

2- Are the equities a uses or sources of funds? Explain.

3- Compare the owner's equity among:

- Single proprietorship.
- Partnership.
- Corporations.

4- Define the following terms:

- Paid - in capital,
- Owner's equity.

5-Define the following:

- Shares.
- Preferred Stock

6- Explain the main differences among common stocks, preferred stocks, and bonds.

7- Choose the correct answer from the following:-

(1) If the bonds are issued at a discount, this indicates:

(a) the contractual interest rate exceeds the market interest rate.

(b) The market interest rate exceeds the contractual interest rate.

(c) The market interest rate is equal to the contractual interest rate.

(d) None of all the above.

(2) For Iraq, U.S dollar is:

(a) a preferred stock (b) a share (c) a cheque (d) a foreign currency

(3) Gains from foreign currency transaction are reported at:

(a) Income statement (b) owner's equity section (c) Not reported at all (d) all of the above.

(4) The bonds payable are……… when bonds are sold for stocks (shares).

(a) Debited (b) Credited

(c) Debited sometimes and credited other (d) None of all the above.

(5) When the company sold 1000 shares at IQD 1500, its par value is IQD one in this case there is:

(a) premium IQD 500000. (b) Discount IQD 500000.

(c) Premium IQD 1500000. (d) Discount IQD 1500000.

8- Define the following terms:

- Liabilities.

- Accounts Payable.
- Notes Payable.
- Bank Overdraft.

9- Choose the correct answer

(1) Which of the following would not be reported as a current liability on the balance sheet?

(a) Bank overdraft.
(b) accrued vacation pay.
(c) stock dividends.
(d) stamps redeemable for premiums.

(2) Which of the following is not a contingent liability?

(a) Pending lawsuits.
(b) endorsement of notes.
(c) additional income taxes assessed.
(d) warranties.

(3) Bonus terms are not usually based on net income

(a) before income taxes and bonus.
(b) after cost of goods sold, but before bonus.
(c) after bonus but before income taxes.
(d) after income taxes and bonus.

(4) The Brown Company issues a long-term non-interest-bearing note for a machine and records the note at face value. What is the effect?

(a) Asset cost will be overstated.
(b)liability will be understated.
(c) interest expense will be overstated.
(d) depreciation expense will be understated.

(5) Accrued liabilities include:

(a) Income tax expense. (b) accrued vacation pay.
(c) contingent liabilities. (d) deposits paid.

B- EXERCISES

1 - Record the following transactions in Journal:

(1) Issuing and selling 10000 common shares at 100 IQD, par value is 90 IQDs.

(2) Converting IQD 70000 bonds to 10000 shares at IQD 6.5.

2- Ahmad Ali started his business, and supplies his business with:

Cash	IQD	10000000
Notes receivable	IQD	5000000
Accounts payable	IQD	3000000

Required:

(1) Record the journal entry.

(2) Prepare the opening balance sheet

(3) Determine the equities and the uses of funds.

☞ **Answers to question (7):**

No.	A	b	c	d
(1)		x		
(2)				x
(3)	x			
(4)	x			
(5)	x			

☞ **Answers to question (9):**

(1) c; (2) d; (3) b; (4) a; (5) b.

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CHAPTER

(6)

FINANCIAL STATEMENTS

1. **Manufacturing Account**
2. **Trading Account**
3. **Profit and Loss Account**
4. **Income Statement**
5. **Balance Sheet**
6. **Worksheet**
7. **Statement of Cash flow**

- **Questions and Exercises?**

CHAPTER

(6)

FINANCIAL STATEMENTS

القوائم المالية

Financial statements are the final outputs for applying the accounting cycle which supply with creditable, relevant, and timely financial information to take rational economic decision.

The object of a business is to get profit. It is something of vital importance to all business. The profit made by a business is the difference between the total revenues earned and the total expenses incurred during a particular period of time. The owner is also interested to know his financial position. The preparation of manufacturing account, Trading account ,Profit and Loss Account , Balance Sheet , statement of cash flow are known as the preparation of financial statements. Usually, there is difference between the financial statements for the commercial firms and the financial statements for the industrial companies. The financial statements for commercial firms are explained in book of accounting (part 1) , while the financial statements for the industrial companies should be expose in this chapter.

The financial statements are the following:

1- Manufacturing account (operation account).
2- Trading account.
3- Profit and loss account.
4- Balance sheet.
5- Cash flow Statement

Some industrial companies prepare the following statements:

1- Statement of goods manufactured.
2- Income statement
3- Balance sheet.

1-MANUFACTURING ACCOUNT حساب التشغيل

Manufacturing account is prepared with the object of finding out what cost of production has been made by the manufacturing department through its operational activities. It is drawn solely for the purpose of arriving at the actual cost of production.

The format of Manufacturing Account is as follow:

Manufacturing Account

For the year ended…………..

Particulars	IQD	IQD	Particulars	IQD	IQD
To Stock at the beginning:-			**By Stock at the end :-**		
Raw materials	xxx		Raw materials	xxx	
Partly manufactured goods	xxx		Partly manufactured goods	xxx	xxx
	-----				
	xxx				
Add Purchases for Raw materials					
Less Returns	xxx		Cost of Production		
	(xxx)		(transferred to Trading A/c)		xxx
To Carriage inwards on Raw materials	-----				
To Productive or direct wages		xxx			
To Factory Expenses :	xxx				
Rent & Taxes					
Lighting & Heating		xxx			
Motive Power	xxx	xxx			
Coal & Coke	xxx				
Factory insurance	xxx				
Indirect wages	xxx				
Repairs to plant	xxx				
Repairs to factory building	xxx				
	xxx				
	xxx				

Depreciation :		xxx			
Plant xxx					
Factory Building xxx					
		xxx			
Total		xxx	Total		xxx

2- TRADING ACCOUNT حساب المتاجرة

That part of an income statement which shows how the gross (operating) profit was generated through the firm's trading activities.

The following items usually appear in the debit and credit sides of the trading account.

◆ **Debit Side Items**:

1. The value of opening stocks of goods (i.e., the stock of goods with which the business was started).
2. Net purchases made during the year (i.e., purchases less returns).
3. Direct expenses, if any.

◆ **Credit Side Items:**

1. Net sales: Total sales made during the period less the value of returns.

2. The value of closing stock of goods.

The difference between the two sides of the trading account represents either gross profit or gross loss. Thus if the credit side is heavier that would mean that the firm has earned gross profit i.e., the excess of selling price of the goods sold over their purchase price. If the debit side is heavier it would mean that the firm has suffered gross loss i.e., purchase price of goods exceeds the selling price. The balance of trading account which represents either gross profit or gross loss is transferred to profit and loss account.

Format of Trading Account (T Account or Account Form):

Trading Account for the year ending............

Particulars	IQD	IQD	Particulars	IQD	IQD
To Opening Stock of finished goods			By Sales	xxx	
To Cost of production b/d		xxx	Less: Sales Returns	(xxx)	
From manufacturing A/c			Net sales		xxx
To Purchases of finished goods		xxx	By Ending Stock of		
Less Purchases Returns		xxx	Finished goods		xxx
To Carriage inwards on Purchases		(xxx)	By Gross Loss		xxx
To Gross Profit (Transferred to P&L A/c)			(Transferred to P&L A/c)		
		xxx			
		xxx			
		xxx			xxx

A- Trading Account Items **عناصر حساب المتاجرة**

● Opening Stock **مخزون أول المدة**

In case of trading concerns it will consist of only finished goods or goods to be sold without alteration (تغيير). In manufacturing concerns, the opening stock will consist of three parts.

(a) Stock of rawmaterials.

(b) Stock of partly completed goods or work-in-progress.

(c) Stock of finished goods.

In case of new business there will be no opening stock.

● Purchases **مشتريات**

This item includes both cash and credit purchases of goods bought with the object of sale.

● Returns Outwards or Purchases Returns **مردودات المشتريات**

It means the goods returned by a trader to his suppliers from out of his purchases. Return outwards reduce the purchases. It is shown by way of deduction from purchases in the trading account.

● Discount on Purchases خصم المشتريات

It is also shown by way of deduction from purchases in the trading account.

● Sales مبيعات

This item includes total of both cash and credit sales of goods in which business deals in. It is credited to trading account.

● Returns Inwards or Sales Returns المردودات الداخلة او مردودات المبيعات

It means goods returned to a business by its customers from out of goods sold to them. It is shown by way of deduction from sales on the credit side of the trading account.

● Discount on Sales خصم المبيعات

This account has always a debit balance and is shown by deduction from sales in the trading account.

B- Closing Entries for Trading Account قيود اقفال حساب المتاجرة

Closing entries are those which are passed at the end of each financial period for the purpose of transferring the various revenues items to the trading and profit and loss account and thus the nominal accounts are closed. In case of preparing a trading account, the opening stock, purchases, sales, returns both inwards and outwards, direct expenses and closing stock are transferred to it by means of journal entries as follow:

No.	Entries	Dr.	Cr.
1	Trading A/c Dr.	xxx	
	To Purchases A/c		xxx
	To Returns Inwards Account A/c		xxx
	To Direct Expenses Account A/c (wages, carriage etc.)		xxx
	(Being the transfer of the purchases and its returns to Trading A/c)		
2	Sales A/c Dr.	xxx	
	Returns Outwards A/c Dr.	xxx	
	To Trading A/c		xxx
	(Sales etc., transferred to trading account)		
3	Closing Stock A/c Dr.	xxx	
	To Trading A/c		xxx
	(Being to record closing stock)		

The closing stock is valued at cost or market price whichever is lower. As this item materially affects the gross profit (or gross loss), it is essential that all possible care should be taken to calculate the closing stock at a proper value.

The value of closing stock is taken into consideration only at the time of preparing the trading account and not before. The trial balance is prepared before the preparation of the trading account. Hence the closing stock does not appear in a trial balance. It is brought into account by means of a journal entry debiting stock account and crediting the trading account.

3-PROFIT AND LOSS ACCOUNT حساب الأرباح والخسائر

Profit and Loss account is prepared to find out the net profit of the business. It is opened by the transfer of either the gross profit to its credit side or the gross loss to its debit side. The Profit and Loss Account is a nominal account and the principle of double entry has to be applied. The losses and expenses will be debited, and gains and revenues will be credited to this account.

The Format of Profit and Loss Account

Particulars	IQD	Particulars	IQD
To Salaries (office)	xxx	By Gross profit(Transferred from Trading A/c)	
To Rent and Rates (office)	xxx	By Interest received	xxx
To Stationery	xxx	By Commission received	xxx
To Lighting (office)	xxx	By Apprenticeship premium	xxx
To Insurance	xxx	By Gains on sale of Fixed Assets	xxx
To Depreciation	xxx		xxx
To Repairs	xxx		
To Postage	xxx		
To Bank Charges	xxx		
To Interest	xxx		
To Audit Fees	xxx		
To Advertising	xxx		
To Discount (Dr.)*	xxx		
To Allowances*	xxx		
To Carriage Outwards	xxx		
To Loss on sale of assets	xxx		
To Loss by Fire	xxx		
To Bad debts xx			
+ New R.B.D xx			
Less Old R.B.D (xx)	xxx		
To Net profit (Transferred to Capital A/c)			
	xxx		
	xxx		xxx

* Note: If the discount on sales and allowances are deducted from sales, they are not appearing in the account of profit and loss, and same treatment for the discount on purchases.

The Profit and Loss Account is also known as Income statement. It can also be prepared as follow (American System):

4- INCOME STATEMENT كشف الدخل

Income statement is more famous and used more in accounting profession than trading account and profit and loss account.

The following equations are derived from the income statement:

1) Net sales = Sales - sales returns and allowances – sales discount
2) Cost of goods sold = Beginning inventory + cost of goods purchased – ending inventory.
3) Cost of goods purchased = Purchases - purchases returns and allowances – purchases discounts + any purchases expenses such as freight - in.
4) Gross profit = Net sales - cost of goods sold.
5) Income from operations = Gross profit - total operating expenses.
6) Total operating expenses = Total selling expenses + total administration expenses.
7) Net income = Income from operations + other revenues and gains - other expenses and losses.

Income Statement

For the year Ended December 31, xxx

Particulars	IQD	IQD	IQD	IQD
Sales			xxx	
Less : Sales discounts		xxx		
Sales Returns and allowances		xxx	(xxx)	
Net sales				xxx
Cost of goods sold:				
Beginning inventory			xxx	
Purchases		xxx		
Less: Purchases discounts	xxx			
Purchases Returns and Allowances	xxx	(xxx)		
Net Purchases			xxx	
Freight-in			xxx	
Cost of goods available for sale			xxx	
Less: Ending Inventory			(xxx)	
Cost of goods sold				xxx

Particulars	IQD	IQD	IQD	IQD
Gross margin (Gross Profit)				×××
Operating Expenses: Rent Expenses Insurance expenses Depreciation expenses Supplies expenses			 ××× ××× ××× ×××	 ×××
Income from Operations				×××
Other revenues and expenses: Interest revenue Interest expenses			 ××× (×××)	 ×××
Net Income				×××

◆ **Example:**

The company of Salah-Aldine can be preparing the income statement for the year ended 2019, on basis the following list:

(Amounts in IQD thousands)

Particulars	IQD (1)	IQD (2)	Total
Sales Less: sales returns Sales discount		 (3000) (500)	14000 (3500)
Net sales			10500
Cost of goods sold Inventory, January 1 Purchases Less: purchases returns IQD 1000 Purchases discount IQD 1000 Net purchases Add: freight - in Cost of goods purchased Cost of goods available for sale Inventory, December, 31 Cost of goods sold	 6000 (2000) 4000 2000	 2000 6000 8000 (4000)	 (4000)
Gross Profit			6500
Less: operating expenses Selling expenses:			

Particulars	IQD (1)	IQD (2)	Total
Freight - out	2000		
Advertising expenses	1000	3000	
Total selling expenses			
Administrative expenses:			
Rent expenses	1000		
Salaries expenses	2000		
Total administrative expenses		3000	(6000)
Total operating expenses			
Income from operations			500
Gains on sale of fixed assets		500	500
Net income			1000

5- BALANCE SHEET الميزانية العمومية

The Balance Sheet presents a photograph of the investing and financing activities of a firm as of a moment in time. It presents a listing of a firm's assets, liabilities and shareholder's equity.

For the commercial firms, the items of the assets are mostly arranged in the order of liquidity decrease (نقص السيولة) .For the industrial companies, the items of the assets are mostly arranged in the order of liquidity increase (زيادة السيولة) .The two types of order are arranged as follow:

(1)Commercial Firms	(2)Industrial Companies
▪ Cash - in hand	▪ Fixed Assets etc.
▪ Cash at Bank	▪ Prepaid Expenses
▪ Financial Investments	▪ Closing Stock
▪ Bills Receivable	▪ Sundry Debtors
▪ Sundry Debtors	▪ Bills Receivable
▪ Closing Stock	▪ Financial Investments
▪ Prepaid Expenses	▪ Cash at Bank
▪ Fixed Assets etc.	▪ Cash - in hand

Also, in the commercial firms, Liabilities are arranged usually in the order of urgency of payment while in the industrial companies these items are arranged in order of slowly payment. The two types of order are arranged as follow:

(1)Commercial firms	(2)Industrial Companies
▪ Accrued Creditors	▪ Capital
▪ Sundry Creditors	▪ Reserves
▪ Bills Payable	▪ Revenues received in advance
▪ Loan	▪ Loan
▪ Revenues received in advance	▪ Bills Payable
▪ Reserves	▪ Sundry Creditors
▪ Capital	▪ Accrued Creditors

Note:

It is preferable to taking this note, for the solutions of exercises: if the activity of company is commercial, it is necessary to use the first type of order. While, if the activity of company is a manufacturing, it is necessary to use the second type of order.

A Balance Sheet may be presented in the following classified form:

Balance Sheet as on …………..

Assets	IQD	Liabilities	IQD
Cash in office	×××	Accrued creditors	×××
Cash at Bank	×××	Sundry Creditors	×××
Financial Investments	×××	Bills Payable	×××
Bills Receivable	×××	Loan	×××
Sundry Debtors	×××	Revenues received in advance	
Less Reserve for bad debts (New Reserve)	(×××)	Reserves	×××
Closing Stock	×××	Capital	×××
Prepaid Expenses	×××	Add Additional Capital	×××
Furniture and Fixtures	×××	Add Net Income	×××
Plant and Machinery	×××	Add Interest on capital	×××
Land and Building	×××	Less Drawings	×××
	×××	Less Interest on Drawings	(×××)
		Less Net Loss	(×××)
			(×××)
	×××		×××

- Preparation of Balance Sheet as Per American System:

Forat Corporation / Balance Sheet as December 31, 2019

Assets	Amounts IQD
Current Assets:	
Cash	×××
Sundry Debtors	×××
Merchandise inventory	×××
Prepaid Expenses	×××
Property, Plant and Equipment:	×××
Property	×××
Plant	×××
Equipment	×××

Assets	Amounts IQD
Total assets	××××
Liabilities and Stockholder's Equity	
Current liabilities :	
Sundry Creditors	×××
Advance from Customers	×××
Shareholders' Equity	×××
Common stock	×××
Total liabilities and Shareholders' Equity	××××

◆ Example

Draw up Adnan's Manufacturing Account showing cost of production and the Trading Account showing gross profit from the following information (Amounts in IQD thousands):

Particulars	IQD
Factory Wages	14000
Purchases of Raw materials	4000
Sales	50000
Sales Returns	2000
Opening Stock (1-1-2019) : Rawmaterials	8000
Opening Stock (1-1-2019) : Working progress	2000
Opening Stock (1-1-2019) : Finished goods	4000
Factory insurance	2000
Tax on materials	1000
Salary to works manager	3600
Carriage on Rawmaterials	1400
Power	1000
Repairs to Machinery	600
Depreciation on plant and Machinery and Buildings	5000

Adjustments:

The Closing Stock on 31-12-2019 was valued at:

- Raw materials IQD 6000

- Work - in - Progress IQD 3000

- Finished goods IQD 2000

Adnan's Manufacturing and Trading Account

For the year ending 31st December, 2019

Particulars	IQD	IQD	Particulars	IQD	IQD
To Opening Stock (1-1-2019) :			By Closing Stock:		
Raw materials	8000		Raw materials	6000	
Work - in - progress	2000	10000	Work - in - Progress	3000	9000
To Purchase of Rawmaterials		4000			
To Factory wages		14000			
To Factory insurance		2000			
To Tax on materials		1000			
To Salary to works manager		3600			
To Carriage on Raw materials		1400			
To Power		1000			
To Repairs to Machinery		600	By Cost of production		
					33600
To Depreciation on Plant		5000	(Transferred to Trading A/c)		
		42600			42600
To Opening Stock of			By Sales	50000	
Finished goods		4000	Less Sales Returns	(2000)	48000
To Cost of Production		33600			
			By Closing Stock of		
To Gross Profit		12400	finished goods		2000
(Transferred to profit and loss					
account)		50000			50000

Exercise (1)

The following balances are related to plastic factory in December, 31,2019 (Amounts in IQD thousands):

Particulars	Jan. 1.2019	December. 31.2019
Raw materials	7000	6000
Work in process	5000	8000
Finished goods	9000	10000

Cost of raw material purchased for 2019 is IQD 20000 Direct labor IQD 10000, manufacturing overhead IQD 5000, finished goods purchased 8000, freight - in for finished goods purchased IQD 2000, sales returns IQD 10000, sales revenue IQD 110000, selling and administrative expenses IQD 6000, other revenues IQD 1000.

Cash IQD 15000, accounts receivable IQD 5000, furniture IQD 4000 factory equipment IQD 36000, long - term debt IQD 4000, notes payable IQD 3000, accounts payable IQD 7000, drawings IQD 3000 capital ???, accumulated depreciation for factory equipment IQD 10000.

Required:

(1)Prepare manufacturing account, trading account, and profit and loss account for plastic factory for the year ended 2019.

(2)Prepare the balance sheet for plastic factory as of Dec, 31, 2019.

Manufacturing A/c

For the year ended 2019

Particulars	IQD	Particulars	IQD
To direct materials Jan,l	7000	By direct materials Dec.31	6000
To work in process Jan.,1	5000	By work in process Dec.,31	8000
To purchases of ramaterials	20000	By trading account	
To direct labor	10000	(Cost of goods manufactured)	33000
To manufacturing overhead	5000		
	47000		47000

Trading A/c

Particulars	IOD	Particulars	IQD
To manufacturing A/c	33000	By finished goods Dec, 31	10000
To finished good Jan.l	9000	By sales	110000
To purchases of finished good	8000		
To freight - in	2000		
To sales returns	10000		
To profit and loss A/c	58000		
(gross profit)			
	120000		120000

Profit and Loss A/c

Particulars	Dr IQD	Particulars	Cr. IQD
To selling and administrative exp.	6000	By trading A/c	58000
To capital (net income)	53000	By other revenues	1000
	59000		59000

Plastic factory

Balance sheet as of December, 31, 2019

Assets	IQD	IQD	Equities	IQD	IQD
Fixed assets:			Owner's equity		
Factory equipment	36000		Capital Jan. 1	10000	
Less accumulated dep.	(10000)		Add: Net income for 2019	53000	
Furniture	26000		Total capital Dec. 31	63000	
Total fixed assets	4000	30000	Less: drawings	(3000)	60000
			Net owner's equity		
Current assets			Long term liabilities		
Ending inventory:			Long - term debt		4000
Raw materials Dec, 31	6000				
Work in process De.,31	8000		Current liabilities		
Finished goods Dec.,31	10000	24000	Notes payable	3000	
Accounts receivables		15000	Accounts payable	7000	
Cash		5000	Total current Liabilities		10000
Total assets		74000	Total liabilities and owner's equity		74000

Exercise (2)

From **Exercise** (1):

(a) Prepare Statement of cost of goods manufactured

(b) Prepare the income statement for plastic factory for the year 2019.

Statement of cost of goods manufactured

Particulars	IQD	IQD
Raw material Inventory Jan., 1, + Purchases of Direct materials	7000 20000	
Cost of direct materials available for use Less/direct material inventory Dec, 31,	27000 6000	
Cost of directs materials used + Direct labor costs		21000 10000
Total direct costs + Manufacturing over head		31000 5000
Cost of goods produced + Work in process inventory Jan. 1, - Work in process inventory Dec. 31,		36000 5000 (8000)
Cost of goods manufactured		33000

Plastic factory: Income statement for the year ended Dec, 31, 2019

Particulars	IQD (1)	IQD (2)	Total
Sales Less: sales returns		110000 (10000)	
Net sales			100000
Less: Cost of goods sold Finished goods, Jan., 1 + Cost of goods manufactured + Purchases of finished goods + Fright - in for finished goods Cost of finished goods purchased Cost of goods available for sale Less: finished goods, Dec., 31	 8000 2000 	 90000 33000 10000 52000 (10000)	
Cost of goods sold			(42000)
Gross profit Less: selling and administrative expenses			58000 (6000)
Profit for operations Add: other revenues			52000 1000
Net income			53000

Exercise (3)

The following Trial Balance is extracted from the books of the firm of Ismail brothers on 31-12-2019 (Amounts in IQD thousands)

Ismail Brothers - Trial Balance as on 31-12-2019

Debit Balances	IQD	Credit Balances	IQD
Opening stock:		Capital	70000

Debit Balances	IQD	Credit Balances	IQD
Raw materials	8400	Sundry Creditors	10000
Work-in- progress	8000	Discount received	1000
Finished goods	11500	Sale of finished goods	157900
Power	800	Sale of Scrap	3000
Freight inwards	2000	Bank Overdraft	6600
Repairs to plants	1000		
Freight outward	400		
Rent - Factory	6000		
Rent - Office	3000		
Salaries - Factory	2400		
Salaries - office	12000		
Purchases of Raw materials	80000		
Wages	8000		
Sundry Trade Expenses	15000		
Office Furniture	10000		
Plant and Machinery	50000		
Sundry Debtors	30000		
	248500		248500

- **Adjustments:** The Stock on 31-12-2019 was as follow:

  - Raw materials IQD 7800

  - Work - in – progress IQD 6000

  - Finished goods IQD 12500

Required: Prepare the Manufacturing Account, Trading Account, Profit and Loss Account and balance sheet.

Ismail Brothers - Manufacturing and Trading Account

For the year ending 31-12-2019

Particulars	Dr. IQD	Particulars	Cr. IQD
To Opening Stock:		By Closing Stock:	
Raw materials	84000	Raw materials	7800
Work - in - progress	8000	Work - in – progress	6000
To Purchases	80000	By Sale of Scrap	3000
To Freight inwards	2000	By Cost of Production (Transferred to Trading	
To Wages	8000	account)	99800
To Power	800		
To Repairs to plants	1000		
To Factory Rent	6000		
To Factory Salary	2400		
	116600		116600
To Opening Stock of Finished goods To		By Sales	157900
Cost of Production (Transferred from	11500	By Closing Stock of finished goods	
		By discount received	12500
			1000

Manufacturing Account) To Gross Profit c/d	99800 60100		
	171400		171400

Ismail Brothers - Profit and loss Account

For the year ending 31-12-2019

Particulars	Dr. IQD	Particulars	Cr. IQD
To Freight Outwards	400	By Gross profit b/d	60100
To Rent - office	3000		
To Salaries - office	12000		
To Sundry Trade Exp.	15000		
To Net Profit (Transferred to Capital Account)	29700		
	60100		60100

Ismail Brothers - Balance Sheet

As on 31-12-2019

Assets	IQD	Liabilities		IQD
Plant and Machinery	50000	Capital	70000	
Office Furniture	10000	Add net profit	29700	99700
Closing Stock:		Creditors		10000
Rawmaterials	7800	Bank overdraft		6600
Work- in – progress	6000			
Finished goods	12500			
Debtors	30000			
	116300			116300

6- THE WORKSHEET ورقة العمل

The worksheet is a columnar sheet on which the ledger accounts are adjusted, balanced, and arranged in the general form of financial statements. It serves as a source from which the formal financial statements are prepared, and the adjusting and closing entries are made in the journal and posted to the ledger. The use of a worksheet is a way of avoiding errors in the permanent accounting records (the journal and the ledger).

- Purposes of Worksheet

The work sheet is a multi-purpose document. It is used for:

1) Preparing the formal financial statements (the income statement and the balance sheet).
2) Recording adjusting entries in the accounting records. These entries are first entered in the journal and then posted to the ledger accounts.
3) Recording closing entries.
4) Preparing monthly or interim financial statements without closing the accounts. These financial statements are prepared for management use. They are prepared from work sheets, but the adjustments

indicated on the work sheet are not entered in the accounting records and no closing entries are made.

5) Simplifying the work to be done at the end of the accounting period by means of modifying the sequence of accounting procedures.

- **Preparing the Worksheet**

The steps in completing the worksheet are:

1) Enter the trial balance figures from the ledger.
2) Make the adjusting entries.
3) Compute adjusted trial balances and extend figures to the cost of goods manufactured, income statement and balance sheet columns.
4) Total the cost of goods manufactured columns and transfer the balance to the debit column of the income statement.
5) Total the income statement and balance sheet columns and enter the net income or loss.

The format of the worksheet contains five pairs of money columns, each pair consisting of a debit and a credit column.

Company name Worksheet for the year ended Dec. 31, 2020

Account	**Trial Balance**		**Adjustments**		**Adjusted Trial Balance**		**Income Statement**		**Balance Sheet**	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.

Exercise (4)

The following trial balance was prepared from the ledger accounts of Durad Merchandising Co. at Dec. 31, 2020 (Amounts in IQD thousands):

Particulars	**Dr.** IQD	**Cr.** IQD
Cash	12000	
Accounts receivable	124500	
Inventory, Jan. 1,2020	40000	
Unexpired insurance	3600	
Office equipment	20000	
Accumulated dep.: office equipment		9600
Accounts payable		12000
Notes payable		30000
Durad, capital.		100000
Durad's drawings	1500	
Sales		164500
Sales returns & allowances	4500	
Purchases	85700	
Purchase discounts		700
Selling and Admin, expenses	25000	
	316800	316800

Additional Information:

(1) The insurance policy covers 3 years.

(2) Office equipment was purchased on Jan. 1, 2016.

(3) Depreciation rate is 12% per year.

(4) Accrued interest on notes payable: IQD 900.

(5) Ending inventory at Dec. 31, 2020: IQD 19500.

Required: Prepare a worksheet.

Durad Merchandise Co. Worksheet for the Year Ended Dec. 31,2020

Account	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	12000 124500				12000				12000	
Accounts receivable	40000				124500				124500	
Inventory, Jan. 1	3600				40000		40000			
Unexpired insurance	20000			(a) 1200	2400				2400	
Office Equipment					20000				20000	
Accumulated dep.:										
Office Equipment		9600		(b)2400		12000				12000
Account payable		12000				12000				12000
Notes payable		30000				30000				30000
Durad, capital	1500	100000				100000				100000
Durad, Drawings					1500				1500	
Sales		164500				164500		164500		
Sales Returns & Allowances	4500									
Purchases	85700				4500		4500			
Purchase discounts					85700		85700			
Selling A Admin, expenses		700				700		700		
	25000									
	316800	316800			25000		25000			
Insurance expense										
Depreciation expense			1200		1200		1200			
(Office Equipment)										
Interest expense			(b)2400		2400		2400 900			
Interest payable			(c)900		900					900
				(c)900		900				
			4500	4500	320190	320190				
Inventory. Dec. 3!								19500	19500	
							159700	184700		
Net Income							25000			25000
Totals							184700	184700	179900	179900

7- STATEMENT OF CASH FLOW كشف التدفق النقدي

Cash flow is the movement of cash into or out of a business, project, or financial institution. It is usually measured during a specified, finite period of time.

Measurement of cash flow can be used:

(1) To determine a project's rate of return or value.

(2) To determine problems with a business's liquidity

(3) As an alternate measure of a business's profits when it is believed that accrual accounting concepts do not represent economic realities.

(4) Cash flow can be used to evaluate the "**quality**" of Income

generated by accrual accounting.

(5) To evaluate the risks within a financial institution.

The total net cash flow is the sum of cash flows that are classified in three areas:

1. Operational cash flows (التدفق النقدي التشغيلي) : Cash received or expended as a result of the company's internal business activities. It includes cash earnings plus changes to working capital.
2. **Financing cash flows (التدفق النقـدي التمـويلي)**: Cash received from the from the loans received and issuance of shares, or paid out as dividends, shares repurchases or debt repayments.
3. **Investment cash flows (التدفق النقدي الاسـتثماري):** Cash received from the sale of long-life assets, or spent on capital expenditures (investments, acquisitions and long-life assets).

◆ preparing the statement of cash flows

Unlike the major financial statements, cash flow statement is not prepared from the adjusted trial balance. The information to prepare this statement usually comes from three sources:

1) Current income statement data help the reader determine the amount of cash provided or used by operations during the period.
2) Selected transactions data from the general ledger provide additional detailed information needed to determine how cash was provided or used during the period.
3) Comparative balance sheets provide the amount of the changes in assets, liabilities, and equities from the beginning to the end of the period.

(1)Indirect Method **الطريقة غير المباشرة**

This method starts with net income and converts it to net cash flow from operating activities. In other words, the indirect method adjusts net income by the items that are affected on the net income but not affected on cash.

☞ **Rule:**

Increase in current assets and decrease in current liabilities is deducted from net income, Decrease in current assets and increase in current liabilities is added to net income for the purpose of conversion net income to net cash from operating activities.

Exercise (5)

Prepare the statement of cash flows by using the indirect method and the following information (Amounts in IQD thousands) :

1) Net Income was IQD 120000
2) Bonds payable increased IQD 50000
3) There was a gain on sale of equipment of IQD 20000 (the equipment had a book value of IQD 30000).
4) Accounts Receivable decreased IQD 50000
5) Accounts Payable decreased IQD 20000
6) Prepaid Rent increased IQD 10000
7) Dividends totaling IQD 20000 were paid.
8) Depreciation was IQD 20000
9) Common Stock increased IQD 50000
10) Land increased IQD 100000 (purchased land for IQD 100000)
11) Beginning cash IQD 10000
12) Ending Cash IQD 180000

Solution:Cash Flow Statement of Bassam Corporation

For Year Ending 31/12/2019

Cash from Operations:		
Net Income	120000	
+ Depreciation	20000	
- Gain on Sale	(20000)	
+ Decrease A/R	50000	
- Decrease A/P	(20000)	
-Increase Prepaid Rent	(10000)	
Total Cash from Operations		140000
Cash from Financing:		
+ Bonds Issued	50000	
-Dividends paid	(20000)	
+Stock Issued	50000	
Total Cash from Financing		80000
Cash from Investing:		
Sale of Equipment	50000	
Purchase of Land	(100000)	
Total cash from Investing		(50000)
Net Increase in Cash Flow		170000
+Beginning Cash		10000
= Ending Cash		180000

Exercise (6)

The following are the income statement and the comparative balance sheets at the beginning and the end of 2019 for Anssam's office (Amount in IQD thousands):

Income statement for the year ended December, 31, 2019

Revenues	100000
Less/ operating expenses	(70000)
Income before income taxes	30000
Income tax expense	(10000)
Net income	20000

Assets	Jan 1.2019	Dec. 31.2019	change Increase /decrease
cash	10000	25000	+15000
accounts receivable	8000	13000	+5000
notes receivable	2000	1000	(1000)
computer equipment	5000	14000	+9000
Total	25000	53000	+28000
Liabilities and owner's equity			
accounts payable	6000	10000	+4000
notes payable	4000	3000	(1000)
long - term debt	6000	15000	+9000
owner's equity	9000	25000	16000
Total	25000	53000	28000

Additional information:

1) New computer equipment was purchased at the end of 2019, no depreciation.
2) The owner drew IQD 4000 during the year.
3) No additional investments by the owner.
4) The increase in long term debt is the issuance of bonds.

Required: Prepare the statement of cash flows for the year ended December, 31, 2019 by using Indirect Method.

Solution: Anssam's Office

Statement of cash flows (Indirect Method)

Particulars	IQD	IQD
Cash flows from operating activities:		
Net income		20000
Adjustment to reconcile net income to net cash provided by operating activities:		
Increase in accounts receivable		
Decrease in notes receivable	(5000)	
Increase in accounts payable	1000	
	4000	

Particulars	IQD	IQD
Decrease in notes payable	(1000)	(1000)
Net cash provided by operating activities		19000
Cash flows from investing activities: Purchase of computer equipment	 (9000)	
Net cash used by investing activities		(9000)
Cash flows from financing activities: Payments to the owner (Drawings) Issuance of bonds	 (4000) 9000	
Net cash provided by financing activities		5000
Net increase in cash Cash at the beginning of the period		15000 10000
Cash at the end of the period		25000

(2) Direct Method الطريقة المباشرة

This method reports cash receipts and cash disbursements from operating activities. The difference between these two amounts in the net cash flow from operating activates. In other words, the direct method deducts from operating cash receipts the operating cash disbursements. The direct method results in the presentation of a condensed (موجز) cash receipts and cash disbursements statement.

The statement of cash flow using direct method by adjusting each item in the income statement from the accrual basis to cash basis.

Exercise (7)

The following are the income statement and Comparative Balance sheet for Tiger Company:

Income statement for the year ended December, 31, 2019

Particular	IQD	IQD
Sales		200000
Cost of goods sold Operating expenses	80000 30000	 110000
Income before income tax Income tax		90000 15000
Net income		75000

Tiger Company Comparative Balance sheet (Thousands IQD)

Dec., 31/12/2019

Assets	2010	2019	changes	increase/ decrease
Cash	100000	80000	-20000	Decrease
Accounts receivable	50000	90000	+40000	Increase
Furniture	20000	50000	+30000	Increase
Total	170000	220000	+50000	
Liabilities and stockholders' equity				

Accounts payable	40000	25000	-15000	Decrease
Income tax payable	5000	15000	+10000	Increase
Common stock	90000	100000	+10000	Increase
Retained Earnings	35000	80000	+45000	Increase
Total	170000	220000	50000	

Additional information:

1) The company was declared and paid IQD 30000 as dividend in 2019.
2) Common stock of IQD 10000 was issued.

Required: Prepare the statement of cash flow by using **Direct Method**.

Solution:

Notes for solution:

- Accounts receivable = 50000 – 90000 = - 40000 Decrease
- Cash receipts from costumers = Revenues - Accounts receivable

  = 200000 – 40000 = 160000

- Accounts payable = 40000 – 25000 = 15000 Decrease
- Cash payments to suppliers = 80000 + 15000 = 95000
- Income taxes = 15000 – 10000 = 5000

Tiger Company

Statement of cash flows (Direct method) for the year ended Dec., 31, 2019

Particulars	IQD	IQD
1-**Cash flows from operating activities:**		
(1) Cash receipts from customers		160000
(2) Cash payments:		
To suppliers	95000	
For operating expenses	30000	
For income taxes	5000	(130000)
Net cash provided by operating activities		30000
2-Cash flows from investing activities:		
Purchase of furniture	(30000)	
Net cash used by investing activities		(30000)
3-Cash flows from financing activities:		
Issuance of common stock	10000	
Payment of cash dividends	(30000)	
Net cash used by financing activities		(20000)
Net increase in cash		(20000)
Cash at the beginning of the period		100000
Cash at the end of the period		80000

Terminology المصطلحات

Accrual accounting	محاسبة الاستحقاق	Gross profit	مجمل الربح
Additional Information	معلومات اضافية	Income from operations	الدخل التشغيلي
Adjusted trial balance	ميزان مراجعة معدل	Income statement	كشف الدخل
Balance sheet	ميزانية عمومية	Indirect Method	الطريقة غير المباشرة
Beginning inventory	مخزون اول المدة	Industrial company	شركة صناعية
Cash flow Statement	قائمة التدفق النقدي	Insurance policy	وثيقة التامين
Cash from Financing	النقد من التمويل	Investment cash flows	التدفق النقدي الاستثماري
Cash from Investing	النقد من الاستثمار	Liquidity decrease	نقصان السيولة
Cash from Operations	النقد من العمليات	Liquidity increase	زيادة السيولة
Closing entries	قيود الإقفال	Manufacturing A/c	حساب التشغيل
Columnar sheet	صفحة ذات حقول	Multi-purposes	متعدد الاغراض
Commercial firm	منشاة تجارية	Net profit	صافي الربح
Comparative	المقارنة	Net sales	صافي المبيعات
Conversion	التحويل	Opening Stock	مخزون أول المدة
Cost of goods sold	كلفة البضاعة المباعة	Operating activities	الأنشطة التشغيلية
Cost of Production	كلفة الانتاج	Operating expenses	المصاريف التشغيلية
Creditable	المصداقية	Operation account	حساب التشغيل
Direct materials	مواد مباشرة	Operational cash flows	التدفق النقدي التشغيلي
Direct method	الطريقة المباشرة	Outputs	مخرجات
Discount on Purchases	خصم على المشتريات	Profit and loss account	حساب الأرباح والخسائر
Ending inventory	مخزون اخر المدة	Project	مشروع
Financial institution	مؤسسة مالية	Purchases Returns	مردودات مشتريات
Financial position	المركز المالي	Rawmaterials	مواد أولية
Administrative exp.	المصاريف الادارية	Relevant	الموثوقية
Financial statements	قوائم مالية	Returns Inwards	مردودات للداخل
Financing cash flows	التـــــدفق النقـــــدي التمويلي	Returns Outwards	مردودات للخارج
Finished goods	بضاعة تامة	Risks	المخاطر
Freight - out	شحن للخارج	Trading account	حساب المتاجرة
Freight-in	شحن للداخل	Work-in-progress	مواد تحت التشغيل
Goods manufactured	بضاعة مصنعة	Worksheet	ورقة العمل

QUESTIONS AND EXERCISES

A- QUESTIONS

1-What is Trading Account? Give its specimen form.

2-What is gross profit?

3-What is profit and loss account? Give its specimen form.

4-What is a Balance Sheet? Give its specimen from.

5-What are the differences between Trial Balance and Balance Sheet.

6-Fill in the following blanks:

1) The final accounts are prepared at the ……………. period.
2) The trading account shows………. or………………. during a trading year.
3) The trading account is prepared to find out ……….or……….
4) Difference appearing on the debit side of the trading accounts is known as ………… whereas difference appearing on the credit side of the trading account is known as…………
5) Gross profit or gross loss is transferred to……. account.
6) The profit and loss account is prepared to find out……. Or………..
7) On debit side of the profit and loss account………… are shown and on the credit side of the profit and loss account ……………….are shown.
8) Indirect expenses includes………….. and……………..
9) Difference appearing on the debit side of the profit and loss account is known as………… and difference appearing on the credit side of the profit and Loss account is known as…………
10) Net profit is………………... to capital and net loss is………….. from capital.
11) Returns inwards are deducted from………………
12) Returns outwards are deducted from ……………..
13) The opening stock is debited to………………. A/c.
14) Discount allowed is debited to………………. … A/c and discount received is credited to…….….…….. A/c.
15) Interest on loan taken is debited to……………… A/c.

7- Choose the **correct answer from the following options:**

(1) Preparation of financial statements consists of :-

(a) Revenue accounts alone (b) Balance Sheet only (c) Trial Balance

(2) Prepaid insurance appears in:-

(a) Trading account (b) Profit and Loss account (c) List of assets.

(3) Depreciation is a:-

(a) Gain (b) Loss (c) Appreciation

(4) Revenue earned but not received is:-

(a) A liability (b) An asset (c) Nominal account

(5) Interest on Drawings is deducted from:-

(a) Net profit (b) Drawings (c) Capital

(6) Closing Stock is valued at:-

(a)Cost price (b) Market price

(c) Cost price or market price whichever is lower.

8- Choose the correct answer from the following:-

(1) Gross loss will result if:

a- Sales revenues are greater than cost of goods sold.

b- Operating expenses are greater than net income.

c- Sales revenues are less than cost of goods sold.

d- Sales revenues are less than operating expenses.

(2) A credit sale of IQD 1080 is made on July 10, terms 5/10, net / 30, on which a return of IQD 80 is granted on July 15. The amount received as a payment in full on 19th July is:

(a)1000 (b)1080 (c)1039.75 (d) 950

(3) In determining cost of goods sold:

	Purchase returns and allowances	Freight – in
a	Deducted	Deducted
b	Added	Added
c	Deducted	Added
d	Added	Deducted

(4) If beginning inventory is IQD 10000, cost of purchases is IQD 190000, and ending inventory is IQD 30000, cost of goods sold is:

(a) 170000 (b) 230000 (c) 220000 (d) 200000

(5) If sales revenues are IQD 500000, cost of goods sold (x).

Operating expenses 50,000, income from operation 150000. The value of (x) is:

(a) 200000 (b) 300,000 (c) 400000 (d) 500000

(6) The closing entry for ending merchandise inventory in a following statement is:

No.	Income statement	Balance sheet
A	Debit	Debit
B	Debit	Credit
C	Credit	Credit
D	Credit	Debit

(7) Cash receipts from issuing new common stocks are classified on the statement of cash flows as:

(a) Operating activities (b) Investing activities

(c) Financing activities (d) Not reveal in the statement of cash flows.

(8) The beginning balance in accounts receivable is IQD 80000, and the ending balance is IQD 75000. Sales during the period are IQD 120000. Cash receipts from customers are:

(a) 125000 (b) 115000

(c) 120000 (d) none of all the previous.

(9) The sheet that includes assets, liabilities, and owner's equity is:

(a) Trial balance (b) Balance sheet

(c) Income statement (d) Profit and loss account

(10) Interest expense account is closed in

(a) Trading A/c. (b) Balance sheet,

(c) Profit and loss account, (d) Manufacturing account.

(11) All of the following are assets except:

(a) Notes receivable.(b) Marketable securities in other corporations.

(c) Interest revenue.(d) Prepaid insurance.

9- Choose the correct answers:

(1) Interest expense account is closed in ....

(a) Balance sheet (b) Trading A/c (c).....................Manufacturing A/c (d) Income statement.

(2) Prepaid rent is ....account:

(a) a revenue (b) an expense (c) a liability (d) an asset.

(3) All of the following are assets except:

(a) Prepaid expenses (b) Notes receivable (c) Marketable securities (d) Interest expense.

(4) The amount collected when asset is disposed is .... :

(a) Depreciation amount (b) the cost of fixed asset (c) useful life (d) salvage value.

(5) Which of the following accounts has a debit normal balance?

(a) Capital (b) sales (c) purchases (d) purchases returns.

(6) When goods are purchased on credit, the credit side of the entry is:

(a) Sales (b) accounts receivable (c) accounts payable (d) purchases.

(7) All of the following are assets except:

(a) Inventory (b) Buildings (c) salaries expense (d) prepaid expenses.

(8) The claims for outsiders on the entity are:

(a) Expenses (b) revenues (c) liabilities (d) assets.

(9) The credit side from general journal entry for credit purchases is:

(a) Notes receivable (b) Accounts payable (c) Sales returns book (d) Purchases A/c.

(10) The .... is a list of accounts with their balances at a given time:

(a) Ledger (b) Trial balance (c) Posting (d) Journal.

(11) When a computer is purchased on credit, we credit:

(a)Computer (b) Accounts payable (c) Purchases (d) Notes receivable.

(12) Using the accounting procedures from year to year means: -

(a) Materiality (b) consistency (c) conservatism (d) matching.

(13) All the following accounts have debit normal balance except:

(a) Gains (b) expenses (c) assets (d) losses.

(14) An office supply is ....…………accounted:

(a) An asset (b) an expense (c) a revenue (d) a liability.

(15) If beginning inventory is IQD 2000000, cost of purchases is IQD 38000000, and ending inventory is IQD 6000000 cost of goods sold is:

(a) 34000000 (b) 40000000 (c) 44000000 (d) 46000000.

10-**State** whether the statements given below are True or False.

(a) Capital is a liability account.

(b) Balance sheet consists of debit side and credit side.

(c) All Assets will show debit balances.

(d) All Liabilities will show credit balances.

(e) An account with debit balance will be either expense or asset.

(f) Adjustment entries are passed throughout out the year like other entries.

11- State whether the following statements are True or False.

(a) Depreciation charged on the assets is added to concerned asset, in the balance sheet.

(b) Every adjustment is shown at two places in the final accounts .

(c) Closing stock is valued at cost price or market price whichever is lesser.

(d) If Trial Balance is not tallied, balance sheet prepared on it, will not be balanced

(e) Accrued expenses are the liabilities of the business.

12-Match the following:-

"A"	"B"
1. Trading A/c	a. Group of three different A/cs .
2. Profit & Loss A/c	b. Deducted from Sales.
3. Balance Sheet	c. Deducted from Purchases.
4. Final A/cs	d. Not an account, but a statement.

"A"	"B"
5. Purchases Returns	e. Indicates gross profit or loss.
6. Sales Returns	f. Indicates net profit or loss .

13-Choose the correct answer and write it against each of the following statements

No.	Name of account	No.	Definition
1.	Trading Account	(a)	Deducted from capital.
2.	Profit & Loss Account	(b)	Deducted from asset concerned
3.	Balance Sheet	(c)	Is a liability of the business.
4.	Purchases Returns	(d)	Is an asset of the business.
5.	Sales Returns	(e)	Deducted from sales
6.	Accrued expense	(f)	Investment made into the business by proprietor
7.	Depreciation	(g)	Indicates net profit or loss.
8.	Prepaid expense	(h)	Indicates gross profit or loss.
9.	Drawings	(i)	Not an account, but a statement.
10.	Capital	(j)	Deducted from purchases.

B- EXERCISES

1- Ascertain purchases from the following figures:

Cost of goods sold IQD 81000

Opening Stock IQD 6000

Closing Stock IQD 7000

2- Calculate Gross Profit from the following figures:

Cost of goods sold IQD 80000

Sales IQD 140000

3- Ascertain cost of goods sold from the following figures:

Opening Stock IQD 4000

Purchases IQD 21000

Closing stock IQD 3000

4- Ascertain cost of goods sold from the following figures :

Particulars	IQD
Opening Stock	9000
Purchases	31000
Direct Expenses	5000
Indirect Expenses	3000
Closing Stock	9000

5- Ascertain Gross Profit from the following figures:

Particulars	IQD
Opening Stock	6000
Purchases	14000
Sales	21000
Closing Stock	4000

Particulars	IQD
Purchase Returns	400
Returns inwards	500
Warehouse wages paid	1400
Import Charges	300

6- From the following ascertain Gross Profit and Net Profit:

Particulars	IQD
Opening Stock	2000
Carriage in	500
Purchases	15000
Manufacturing wages	3000
Sales	21000
Closing Stock	4000
Accrued Manufacturing Wages	90
Returns outwards	200
Returns inwards	700
Loss due to fire	1000
Indirect Expenses	100

7-The following is the Trial balance of Mr. Rahman on 31-12-2019.

Trial Balance on 31-12-2019

Name of the Account	Dr. IQD	Cr. IQD
Capital Account		50000
Stock (1-1-2019)	10000	
Cash at Bank	7200	
Machinery Account	36800	
Purchases Account	75000	
Wages Account	50000	
Fuel and Power Account	15000	
Factory Lighting Account	1000	
Salaries Account	35000	
Discount Allowed Account	2500	
Discount Received Account		1500
Advertisement Account	45000	
Sales Account		250000
Sundry Debtors Account	42500	
Sundry Creditors Account		18500
	320000	320000

The Value of Closing Stock is IQD 13500.

Required: Pass the closing entries.

8- The following is a list of balances drawn from the books of Jameel's Trader as on 31st December 2019.

Serial No.	Name of the Accounts	Debit (IQD 1000)	Credit (IQD 1000)
1	Jameel's Capital		55000
2	Drawings	5900	
3	Office Furniture	1800	
4	purchases	30800	
5	Purchases Returns		1500
6	Oil and Fuel	1700	
7	Rent Rates and Insurance	2500	
8	Wages	13200	
9	sales		75000
10	Cartage	1100	
11	General Expenses	870	
12	Travelling Expenses	1340	
13	Sales Returns	1300	
14	Advertisement	1875	
15	Plant	17500	
16	Stock (1-1-2019)	8600	
17	debtors	30600	
18	Bills payable		12000
19	Commission payable	1260	
20	Accountancy Charges	1000	
21	Sundry Creditors		18200
22	Bills Receivable	18000	
23	Cash in hand	285	
24	Cash at bank	15000	
25	Office Salaries	6800	
26	Discount received		2130
27	Motive power	2400	
28	Goodwill	8000	
29	Reserve for Doubtful Debts		4060
30	Reserve for Discount on Debtors		3940
		171830	171830

Adjustment: On December 31, 2019 the stock on hand was valued at cost 11400 IQD.

Required: Prepare Manufacturing A/c, Trading A/c and Profit and loss account **and** the Balance sheet as on 31 /12/2019.

9- The flowing balances are showed at Dec, 31, 2019. For AL-Zamman Company (amount in IQD)

Merchandise inventory (1/ 1) 750000, sales 5050000, sales returns 50000, Accounts receivable 350000, purchases 3000000, freight- in 10000,

freight - out 20000 , cash 1050000 , Equipment 1000000 , Administrative expense 350000 , Notes receivable 600000 , Accounts payable 250000 , Notes payable 50000,capital ……….?

Ending inventory at cost 1000000 Ending inventory at market 900000

Required:

1) Prepare the trial balance at the end of 2019.
2) Prepare income statement for the year ended Dec. 31, 2019.
3) Prepare trading A/c and profit and loss account.
4) Prepare the balance sheet as on Dec. 31, 2019.

10- The following is a debit and credit balances extracted from the books of Jamal traders as on31st December, 2019, (amounts in Iraqi Dinars)

-Debit balances:

Drawings 590000, Office furniture 180000, Purchases 3080000, Oil and fuel 170000, Rent Rates and Insurance 250000, Wages 1320000, Cartage 110000, General expenses 87000, Traveling expensesl34000, Sales returns 130000, Advertisement 187500, Plant 1750000, Stock (1-1-2019) 860000, Debtors 3060000, Commission Payable 126000, Accountancy charges 100000 Bills Receivable 1800000, Cash in hand 28500, Cash at bank 1500000, Office salaries 680000, Motive power 240000, goodwill 800000 (total 17183000).

-Credit Balances:-

Reserve for discount on debtors 394000 Reserve for doubtful 406000 , Discount received 213000 , Sundry creditors 1820000 , Bills payable 1200000 ,Sales 7500000 , Purchases returns 150000 , Capital 5500000. **Adjustment:-** On December 31 , 2019 the stock on hand was valued at cost IQD 1140000.

Required: Prepare the following statements

(1) Manufacturing and Trading account for the year ended 31/12 / 2019.

(2) Profit and loss account for the year ended 31 /12 / 2019.

(3) Balance sheet as on 31/ 12 / 2019

11- The following trial balance extracted from the books of "Nana factory" on 31.12.2019

Debit Balances	IQD	Credit Balances	IQD
•Opening stock: -		•Bank Overdraft	1980000
Raw materials	2520000		
Work-in-process	2400000		
-Finished goods	3450000		
•Power	240000	By Sales of scrap (salvage)	900000

Debit Balances	IQD	Credit Balances	IQD
•Freight inwards	100000	•Salas of finished goods	47370000
•Repairs to plants	300000	•Discount Received	300000
•Freight outwards	120000	•Sundry creditors	3000000
•Rent - Factory	1800000	•Capital	21000000
•Rent - office	900000		
•Salaries - Factory	720000		
•Salaries — office	3600000		
•Purchases of raw materials	24000000		
•Wages - Factory	2400000		
•Selling Expenses	4500000		
•Office Furniture	3000000		
•Plant and machinery	15000000		
•Sundry Debtors	9000000		
Total	74550000	Total	74550000

Adjustments: Stock on 31/12/2019 was: - Raw materials 2340000 IQD, work - in process 1800000 IQD, Finished goods 3750000 IQD.

Required: Prepare the following:

(1) Manufacturing A/c (2) Trading A/c

(3) Profit and loss A/c (4) Balances sheet

12-The following balances are related to Foods Factory in December 31,2019 (Amounts in IQD.)

Particulars	Jan. 1, 2019	Dec31,2019
Raw- materials	350000	300000
Work-in-process	250000	400000
Finished goods	450000	500000

Cost of raw-materials purchased for 2019 is 1000000, Direct Labor 500000, manufacturing overhead 250000, Finished goods purchased 400000, Freight- in for finished goods purchased 100000, Sales returns 500000, Sales revenues 5500000, selling and administrative expenses 300000, other revenues 50000 .

Cash 750000, accounts receivable 250000, furniture 200000, equipment of factory 1800000, Long-term debt 200000, notes payable 150000, accounts payable 350000, drawings 150000, accumulated depreciation for factory equipment 500000, Capital…… ?

Required:

(1) Prepare manufacturing account; trading account, profit and loss account for Foods Factory for the year ended 2019.

(2) Prepare the balance-Sheet for Foods Factory as on December, 31, 2019.

13- A comparative balance sheet for AL-Furkan Company is presented below

Particulars	31/12/2020	31/12/2019
Assets	IQD	IQD
Cash	63000	I22000
Accounts receivable	85000	76000
Inventories	180000	189000
Land	75000	100,000
Equipment	260000	200000
Accumulated depreciation	(66000)	(42000)
Total	597000	545000
Liabilities and Stockholders' equity		
Accounts payable	34000	47000
Bonds payable	150000	200000
Common stocks (10 par)	214000	164000
Retained earnings	199000	134000
Total	597000	545000

Additional information:

1) Net income for 2020 was IQD 105000.
2) Cash dividends of IQD 40000 were declared and paid.
3) Bonds payable amounting to IQD 50000 were redeemed for IQD50000.
4) Common stocks were issued for IQD 50000 cash.

Required: Prepare a statement of cash flows for 2020 by using the indirect method?

☞ **Answers to question No. (7)**

No.	a	b	c
1			x
2			x
3		x	
4		x	
5			x
6			x

☞ **Answers to question No. (8)**

No.	a	b	c	d
1			x	
2				x
3			x	
4	x			
5		x		
6				x
7			x	
8	x			
9		x		
10			x	
11			x	

☞ **Answers to question No. (9)**

No.	a	b	c	d
1				x
2				x
3				x
4				x
5			x	
6			x	
7			x	
8			x	
9		x		
10		x		
11		x		
12		x		
13	x			
14	x			
15	x			

☞ **Answers to questions No. (10, 11)**

No.	a	b	c	d	e	f
10	True	True	True	True	True	True
11	False	True	True	True	True	------

☞ **Answers to question No. (12)**

No.	a	b	c	d	e	f
1					x	
2						x
3				x		
4	x					
5			x			
6		x				

☞ **Answers to question No.(13)**

No.	a	b	c	d	e	f	g	h	i	j
1								x		
2							x			
3									x	
4										x
5					x					
6			x							
7		x								
8				x						
9	x									
10						x				

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CHAPTER

(7)

ACCOUNTING ADJUSTMENTS

1. **Expenditures Adjustments**
2. **Revenues Adjustments**
3. **Capital and Revenue Expenditures**
4. **Adjustments in Financial Statements**
5. **Summary of Adjustments**

◆ **Questions and Exercises?**

CHAPTER

(7)

ACCOUNTING ADJUSTMENTS

التسويات المحاسبية

Adjustments are represented a part of the accounting cycle. These entries at the end of an accounting period bring up to date the balance of accounts that are out of date. Changes in accounts happen because of passage of time, use of items, etc. Adjustments are internal, never involve cash. Adjusting entries affect both the balance sheet and final accounts or the income statement.

Adjusting entries (قيود تسوية) are Journal entries prepared at the end of the accounting period to ensure that revenues are recorded in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

1- EXPENDITURES ADJUSTMENTS **تسويات المصاريف**

◆ **Expenditures** are management expenses (مصاريف إدارية) related to goods and services consumed by the management of the entity such as accountants' salaries, utilities (water, electricity ... etc.) for management.

These expenditures are period costs debited during the year and closed in final accounts at the end of the year.

◆ **Accrued expenses are expenses which have been incurred but not paid**

المصاريف المستحقة هي المصاريف التي تمت ولكنها لم تدفع

Examples include accrued wages payable, accrued interest payable, accrued warranty expenses, etc.

An accrued expense is recorded by charging appropriate expense account and crediting the related accrual account, (e. g., debit interest expense, credit accrued interest payable).Accrued expenses are recorded in liabilities side.

◆ Expenses paid in advance (prepaid expenses) مصاريف مدفوعة مقدما

When a firm pays in advance for a goods or services such as insurance, rent, interest, etc., the cost of the item is first recorded as an asset, a prepaid expense.

In a classified balance sheet, the current and concurrent portion of prepaid expenses should be separately presented.

As the benefits from the prepayment are realized, the prepaid expenses are reduced, and expense account is debited.

The following four categories are related to adjustment of the accounts based on accrual basis and discussed in this chapter and in the next chapters:

Assets	Liabilities.
- Prepaid expenses - Accrued revenues (revenues not paid yet)	- Accrued expenses -Unearned revenues (revenues received in advance)

2- REVENUES ADJUSTMENTS تسويات الإيرادات

Revenue has been defined by the FASB as "inflows or other enhancements (تعزيـزات) of assets of an entity or settlements (ترتيبـات، تـسويات) of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services or other activities that constitute the entity's ongoing operations.

The revenue recognition principle dictates that revenue be recognized in the accounting period in which it is earned.

◆Accrued revenues (revenues not paid yet): الايرادات المستحقة

Revenues earned but not yet received in cash or recorded. Accrued revenues are assets.

◆Unearned revenues (revenues received in advance): الايرادات المستلمة مقدما

Unearned revenues received in cash and recorded as liabilities before they are earned.

In general there are four adjustments arranged as follow:

◆**Adjustment (1):**

Accrued Expenses تسوية المصاريف المستحقة

These represent expenses which have been incurred during the year but the payment is yet to be made.

Example:

Salaries to office staff for the month of December IQD 5000000 are yet to be paid on 31 - 12 - 2019.

Adjusting Entry:

Date	Particulars	Debit	Credit
	Salaries A/c Dr. To Accrued Salaries A/c	5000000	 5000000

Profit and Loss A/c

Particulars	Dr.IQD	Amount	Particulars	Cr.IQD
To salaries Add: Accrued salaries	xxx 5000000	 5000000		

Balance Sheet

Assets	Amount IQD	Liabilities	Amount IQD
		Accrued Expenses: salaries	5000000

◆ **Adjustment (2):**

Prepaid Expenses or Expenses paid in advance تسوية المصاريف المدفوعة مقدما

These expenses are paid in advance. The terms which are used to indicate such payments are "Prepaid" and "unexpired".

◆ **Example:**

Insurance premium of IQD 3000000 a year was paid on 1st July. The annual accounts are closed on 31st December every year.

In this example, half the amount paid i.e. IQD 1500000 must be treated as prepaid and subtracted from the premium paid.

Adjusting Entry:

Date	Particulars	Debit	Credit
	Prepaid insurance A/c Dr. To Insurance A/c	1500000	 1500000

Profit and Loss A/c

Particulars	IQD	IQD	Particulars	IQD
To insurance A/c Less: prepaid insurance	3000000 (1500000)	 1500000		

Balance Sheet

Assets	IQD	Liabilities	IQD
Prepaid Insurance	1500000		

◆ **Adjustment (3):**

Accrued Revenues or Revenues not received

تسوية الايرادات المستحقة (الايرادات غير المستلمة)

These are revenues which have already been earned i.e. the service has already been rendered but the money has not yet been received.

◆ **Example:**

Accrued Interest on Investments IQD 500000.

Adjusting Entry:

Date	Particulars	Debit	Credit
	Accrued Interests A/c Dr	500000	

	To Interest A/c		500000

Profit and Loss A/c

Particulars	Dr. IQD	Particulars	Cr. IQD	Cr. IQD
		By interest on investments Add :Accrued interests	500000	

Balance Sheet

Assets	IQD	Liabilities	IQD
Accrued Interest	500000		

◆ **Adjustment (4):**

Revenues Received in Advance **تسوية الايرادات المستلمة مقدما**

These are revenues received during the current year; a part of the revenue belongs to the next year.

◆ **Example:**

Apprentice premium (مكافأة) received in advance IQD 500000.

Adjusting Entry:

Date	Particulars	Debit	Credit
	Apprentice Premium A/c Dr. To Apprentice premium received in advance A/c	500000	500000

Profit & Loss A/c

Particulars	IQD	Particulars	IQD	IQD
		By Apprentice premium Less: received in Advance	xxx (500000)	

Before presentation of the adjustments in financial statements, it is very necessary to explain the difference between the capital and revenues expenditures.

3- CAPITAL AND REVENUE EXPENDITURE

المصاريف الرأسمالية والإيرادية

In order to prepare the correct financial statements for the accounting year all expenses accruing in the year must be taken into consideration even if they have not been paid. Similarly, payment against expenses which have not accrued in the current accounting year must be excluded.

In the same manner, revenues which have fallen (تقـع) due or simply have been earned but not received must be brought into the accounts. If some part of the revenue relates to the next year, that is, it is received in advance; it must be excluded to get the correct revenue earned for the year.

A- Capital Expenditure المصروف الرأسمالي

The capital expenditure is incurred to acquire the assets for the business. The purpose of acquiring such asset is not to sell but use in the business. The examples are Building, Furniture, Plant and Machinery, Tools etc. such expenses are incurred mainly to increase the earning capacity or reduce the cost and will be treated as capital expenditure. The payment for these capital assets would be made either from the original money capital or from profit surpluses retained by the business. These assets could be acquired in the purchase price, when a business is bought as a "going concern", and any further payments made on improving or extending these assets would be debited to these same accounts and increase their "Book Value"(القيمة الدفترية).

Rules for Determining Capital Expenditures

قواعد لاحتساب المصاريف الرأسمالية

(1) Any expenditure incurred for acquiring fixed assets in the business for the purpose of earning profit.

(2) Any expenditure incurred on an existing asset for its extension or improvement which will increase the profit earning capacity.

(3) Any expenditure incurred in connection with bringing an old asset for its working condition.

(4) Any expenditure incurred for the benefit of continuing nature.

B- Revenue Expenditure المصروف الايرادي

Revenue expenditure is charged and written off to Trading Account or Profit and Loss Account at the end of the financial year. The examples are Rent, Commission, Interest, Wages, Salaries, General expenses, Administrative expenses, Discount etc.

Rules for Determining Revenue Expenditures

قواعد لاحتساب المصاريف الايرادية

(1) Expenses in connection with day - to - day running of the business.

(2) Expenses which bring benefit which expire within a period of one year.

(3) Expenses for acquiring any merchandise which is meant for resale.

(4) For maintaining fixed asset in working condition.

Distinguish between Capital and Revenue Expenditure

Capital Expenditure	Revenue Expenditure
1. Incurred for acquisition of an asset (tangible or intangible)	1. Regularly spent to run the business such as salary, rent etc.
2. Generally results in the improvement of business.	2. Results in maintaining the earning capacity.
3. The benefit from capital expenditure last for a long period and a part only be written off as expense like depreciation.	3. The benefit from revenue expenses will last for only one year and is charged either to Trading A/c or Profit and Loss A/c

Example:

Find out from the following information which items should be charged to capital and which to revenue.

(1) IQD 500000 spent on dismantling, removing and installation of a fixed asset at a new site.

(2) IQD 50000 paid as wages to remove materials to the new site.

(3) An Old Machine whose book value was IQD 3000000 was found to be obsolete and sold for IQD 2400000 as scrap. A new Machine was installed in its place at a cost of IQD 4800000.

(4) Expenses incurred in installation of a machine IQD 150000.

(5) IQD 500000 paid as repairs on fixed assets.

Solution:

- **(1) and (2)** are deferred revenue expenditures(مصاريف ايرادية مؤجلة) because when a factory moved to a new site, the expenses are to be treated as deferred revenue expenditure because the benefit of such a charge will accrue for a longer period.
- **(3)** The loss on sale of an asset is a revenue loss and therefore should be debited to profit and loss account (3000000 - 2400000 = 600000). The cost of new machine is a capital expenditure.
- **(4) Any** expenditure incurred in acquisition, installation or erection of a machine is a capital expenditure.
- **(5)** It is a revenue expenditure; the repairs to an asset will not increase the efficiency but maintains the efficiency of the asset, so it should be treated as revenue expenditure.

Capital and Revenue Receipts **المقبوضات الايرادية والرأسمالية**

A capital receipt is finance invested in a business either by the owner or by an outside.

Example:

Suppose, in a particular year Abdul Rahman decided to invest an additional IQD 10000000 of his own money in his restaurant and paid this

amount in to the business bank account. As the business is given additional finance to use, it will be safety treated as capital receipt.

Amount received on sale of fixed asset and as loan is a capital receipt. But if the amount realized on sale of asset is more than its book value, such a difference is a revenue receipt. If sale price is less than book value, it is a revenue loss.

4- ADJUSTMENTS IN FINANCIAL STATEMENTS

التسويات في القوائم المالية

The object of preparing of financial statements is to find out the true profit for the year under consideration. This requires that all items which are relevant to the current year are brought into statements. For example, in the case of expenses, all expenses incurred during the current year whether paid or unpaid should be shown in the profit and loss account. The unpaid amount of a particular expense has to be brought into account, this is known as adjustment.

The following items are the common adjustments (The amounts given in examples below are in IQD Thousands):

◆Adjustment (1): Closing stock **مخزون آخر المدة**

Trial Balance as on 31 -12 - 2019

Serial No.	Name of the Account	Debit IQD	Credit IQD
	Opening stock (1 - 1 - 2019)	50000	……

Adjustment:

Closing stock was valued on 31 - 12 - 2019 at IQD 140000. Opening stock appears in the Trial Balance. It will appear only once in the final account, i.e. trading A/c

Closing stock appears outside the Trial balance. Therefore it will appear twice in the financial statements. i.e. Trading account in credit side, and Balance sheet in assets side.

Trading A/c

Particulars	Dr. IQD	Particulars	Cr. IQD
To Opening stock	50000	By closing stock	140000

Balance Sheet

Assets	IQD	Liabilities	IQD
To closing stock	140000		

◆ **Adjustment (2): Depreciation الاندثار**

It means fall in the value of an asset on account of use. It is to be treated as a loss to the firm. It is usually calculated at a certain percentage on

the original value of the asset. E.g.: A company has furniture of the value of IQD 50000. At the end of the year, it is depreciated by 10%.

Adjusting Entry:

Date	Particulars	Dr.	Cr.
	Depreciation A/c Dr. To Furniture A/c (50000 x 10%)	5000	5000

Profit and Loss A/c

Particulars	Dr. IQD	Particulars	Cr. IQD
To Depreciation: Furniture	5000		

Balance Sheet

Assets	IQD	IQD	Liabilities	IQD	IQD
Furniture Less: Depreciation	50000 (5000)	45000			

◆Adjustment (3) الديون المعدومة

Debts represent money to be recovered from debtors. Bad debts **represent that** a certain debts of the business owed by a certain debtors cannot be recovered for different reasons (insolvency, dead…etc.). It should be treated as a loss.

Trial Balance as on 31-12-2019

Particulars	Dr. IQD	Cr. IQD
Sundry Debtors	50000	
Bad Debts	300	

Adjustment: Write off IQD 10000 as bad debt.

Adjusting Entry:

Date	Particulars	Dr	Cr
	Bad debts A/c Dr To Sundry Debtors A/c	10000	10000

Profit and Loss Account for the year ended 31-12-2019

Particulars	IQD	Dr. IQD	Particulars	Cr. IQD
To Bad debts	300			
To Bad debts written off	10000			
(New bad debts)		10300		

The amount of IQD 300 had already been deducted and adjusted, so the remaining IQD 10000 alone had to be deducted from Debtors.

Balance Sheet as on 31st December 2019

Assets	IQD	IQD	Liabilities	IQD
Sundry Debtors	50000			
Less New Bad Debts	(10000)	40000		

◆ **Adjustment (4): Provision for Doubtful Debts**

مخصص الديون المشكوك فيها

Every firm has a lot of dealings by way of credit transactions. This gives rise to a sizable amount of book debts. It is also known as sundry debtors. It is not possible to collect all book debts. Therefore it is necessary to bring down the balance of debtors to its true position. So every firm must create provision for bad and doubtful debts a certain percentage on Sundry Debtors. This amount is shown on the debit side of the profit and loss Account, and then subtracted from sundry debtors in the balance sheet.

Trial Balance as on 31st December 2019

Serial No.	Names of the Accounts	Dr. IQD	Cr. IQD
	Book Debts	200000	

Adjustment:

Create a provision for Doubtful Debts at 10% on Book Debts.

Adjusting Entry:

Date	Particulars	Dr	Cr
	Profit and Loss A/c Dr To Provision for Doubtful Debts A/c (200000 x10%)	20000	 20000

Balance sheet as on 31/12/2019

Assets	IQD	IQD	Liabilities	IQD
Book Debts Less Provision for Doubtful Debts at 10%	200000 (20000)	 180000		

◆**Adjustment (5): Bad Debts, New Bad Debts, New Provision and Old Provision**

الديون المعدومة، الديون المعدومة الجديدة، الاحتياط الجديد والقديم

Trial Balance as on 31st December 2019

No.	Name of the Account	Dr. IQD	Cr. IQD
	Sundry Debtors Bad debts Provision for Doubtful Debts (Old Provision)	250000 25000	 35000

Adjustment:

Increase Bad debts by IQD 20000 (New Bad debts) and make provision for Doubtful Debts (New Provision) 12% on Sundry Debtors.

Profit and Loss Account

Particulars	IQD	IQD	Particulars	IQD	IQD
To Bad debts (From the Trial Balance)	25000				
Add New bad debts (from the adjustment)	20000				

Particulars	IQD	IQD	Particulars	IQD	IQD
Add New Provision (From the adjustment) 250000 x 12%	30000				
 Less Old Provision (from the Trial Balance)	75000 (35000)	40000			

Balance Sheet

Assets	IQD	IQD	Liabilities	IQD	IQD
Sundry Debtors Less New Bad Debts Less New Provision	250000 (20000) 230000 (30000)	200000			

◆ **Adjustment (6) : Provision for Discount on Debtors**

مخصص خصم المدينين (الخصم النقدي للمدينين)

Cash discount is given to debtors who make prompt payment or early payment. Therefore the usual practice in firm is to provide for discount on debtors.

Trial Balance

Name of account	Debit IQD	Credit IQD
Sundry Debtors	100000	

Create a provision for discount on Debtors 5%.

Adjusting Entry:

Date	Particulars	Dr	Cr
	Profit and Loss A/c Dr To provision for Discount on Debtors A/c (100000 x 5%)	5000	 5000

Profit and Loss A/c

Particulars	Dr. IQD	Particulars	Cr. IQD
To provision for discount on Debtors	5000		

Balance Sheet

Assets		IQD	Liabilities	IQD
Sundry Debtors Less provision for Discount on Debtors	100000 (5000)	 95000		

◆ **Adjustment (7) : Provision for discount on Creditors**

مخصص خصم الدائنين (الخصم النقدي للدائنين)

Creditors represent the amount owed by the firm to outside parties. When a firm makes a prompt payment, it will be given a cash discount which will increase the net profit of the firm. Therefore it is necessary to make provision for discount on creditors and deduct from sundry creditors in the Balance sheet. To reduce the balance of sundry creditors

the provision for discount on creditors A/c is deducted being a possible gain, profit and loss A/c credited.

Adjusting Entry:

Date	Particulars	Dr.	Cr
	Provision for Discount on Creditors A/c Dr	xxx	
	To Profit and Loss A/c		xxx

Trial Balance

No	Name of the Account	Dr. IQD	Cr. IQD
	Sundry Creditors		50000

Adjustment:

Create a Provision for Discount on Creditors at 2%

Profit and Loss A/c

Particulars	Dr. IQD	Particulars	Cr. IQD
		By Provision for Discount on Creditors (50000 x 2%)	1000

Balance Sheet

Assets	IQD	Liabilities	IQD
		Sundry Creditors 50000	
		Less Provision for	
		Discount on Creditors 2% (1000)	49000

◆**Adjustment (8) : Interest on Capital الفائدة على رأس المال**

Often, interest at a normal rate is allowed on the capital. It is expenditure on the firm and an income to the owner. Therefore it is deducted out of profit and added to the capital.

Adjusting Entry:

Date	Particulars	Cr	Cr
	(1)		
	Interest on capital A/c Dr	xxx	
	To Capital A/c		xxx
	(2)		
	Profit & Loss A/c Dr	xxx	
	To Interest on capital A/c		xxx

Trial Balance

Serial No.	Name of the Account	Dr. IQD	Cr. IQD
	Capital		150000

- Allow interest on capital at 5% per annum.

Profit and Loss A/c

Particulars	Dr. IQD	Particulars	Cr. IQD
To Interest on capital at 5%	7500		

Balance sheet

Assets	IQD	Liabilities	IQD
		Capital 150000 Add Interest on Capital 7500	157500

◆ Adjustment (9): Interest on Drawings الفائدة على المسحوبات

Drawings are money or goods withdrawn by the proprietor from his firm for personal use. Just as the firm allows interest on capital, it charges interest on drawings. This is a gain to the firm and loss to the proprietor. So it is credited to the profit and Loss account and deducted from the capital in the balance sheet.

Adjusting Entry:

Date	Particulars	Dr.	Cr
31/12	**(1)** Drawings A/c Dr. To Interest on Drawings A/c	 xxx	 xxx
31/12	**(2)** Interest on Drawings A/c Dr. To Profit & Loss A/c	 xxx	 xxx

Trial Balance

No.	Names of the Accounts	Dr IQD	Cr IQD
1	Capital and Drawings	150000	700000

- Charge interest on Drawings at 5% per year for 6 months.

Profit and Loss A/c

Particulars	Dr. IQD	Particulars	Cr. IQD
		By Interest on Drawings (150000 x 5% x 6/12)	3750

Balance Sheet

Assets	IQD	Liabilities	IQD
		Capital 700000 Less Drawings (150000) Less Interest on Drawings (3750)	546250

Exercise (1)

The following Trial balance for the year ending 31st December 2019 (Amounts in IQD Thousands).

Trial Balance as on 31st December 2019

Debit Balances	IQD	Credit Balances	IQD
Opening Stock	20000	Bills Payable	10000
Sundry Debtors	28000	Returns Outward	2500
Purchases	40000	Sundry Creditors	21500
Wages	8500	Sales	70000
Salaries	2700	Provision for Discount on Debtors	400
Office Expenses	2445	Capital A/c.	90000
Insurance	1300	Loan (10% taken on 1st July 2019)	3000
Plant and Machinery	30000	Commission	1000
Rent	1800	Discount (received)	500
Travelling Expenses	1400	Rent (received)	700
Returns inward	3500		
Land and Building	44800		
Bills Receivable	4000		
Bank Balance	6655		
Furniture	2400		
Sundry Expenses	800		
Bad Debts	600		
Advertisement	700		
	199600		199600

Adjustments.

1) Closing stock valued at IQD 15000.
2) Accrued wages IQD 500, accrued salaries IQD 300.
3) Prepaid insurance IQD 300.
4) Depreciate Plant and Machinery at 10%, Land and Building at 15% and furniture at 5%.
5) Provide IQD 500 for further bad debts and maintain provision for bad and doubtful debts at 5%.
6) Provide 5% interest on capital.

Required: Prepare trading and profit and loss account for the year ending 31st December 2019, and a balance sheet as on that date, after taking into consideration the above adjustments.

Solution:

First make a star or dot against the related items in the balance for adjustments to remind you that there is an adjustment.

Trading and Profit and Loss A/c for the year ended 31st December 2019

Particulars	IQD	IQD	Particulars	IQD	IQD
To Opening Stock		20000	By Sales	70000	
To Purchases	40000		Less: Returns Inward	(3500)	66500
Less: Returns Outward	(2500)	37500	By Closing Stock		15000
To Wages	8500				

Particulars	IQD	IQD	Particulars	IQD	IQD
Add: Accrued Wages	500	9000			
To Gross Profit (c/d)		15000			
		81500			81500
To Salaries	2700				
Add: Accrued Salaries	300	3000	By Gross Profit (b/d)		15000
To Office Expenses		2445	By Commission A/c		1000
To Insurance	1300		By Discount A/c		500
Less: Prepaid insurance	(300)		By Rent (received)		700
To Depreciation:		1000	By Net Loss		10510
Plant & Machinery	3000				
Land & Building	6720				
Furniture	120	9840			
To Rent A/c		1800			
To Travelling Expenses		1400			
To Sundry Expenses		800			
To Advertisement		700			
To R.D.D A/c:					
Bad Debt	600				
Add: Further Bad Debts	500				
Add: New provision	1375				
	2475				
Less: Old Provision	(400)	2075			
To Interest on Loan		150			
To Interest on Capital		4500			
		27710			27710

Balance Sheet as on 31st December 2019

Assets	IQD	IQD	Liabilities	IQD	IQD
Land and Building	44800		Capital A/c	90000	
Less: Depreciation (15%)	(6720)	38080	Add : Interest on Capital	4500	
				94500	
Plant and Machinery	30000		Less: Net Loss	(10510)	83990
Less: Depreciation	(3000)	27000			
			Loan	3000	
Furniture	2400		Add: Interest 10%		
Less: Depreciation 5%	(120)	2280	(for six months)	150	3150
Closing Stock		15000 300	Creditors		21500
Prepaid Insurance					
			Bills Payable Sundry		10000
Sundry Debtors	28000				
Less: Further Bad Debts	(500)		Accrued Wages Accrued Salary	500	
	27500	26125		300	800
Less: New provision	(1375)				
		4000			
Bills Receivable		6655			
Bank Balance					
		119440			119440

Exercise (2)

The trial balance as on 31st December 2019 of Nasser traders is given below (Amounts in IQD Thousands).

Debit Balances	IQD	Credit Balances	IQD
Drawings	750	Capital	25000
Buildings	20000	Sales	75500
Plant and Machinery	6000	Purchases Returns	1000
Cash at bank	550	Sundry Creditors	12600
Purchases	47500	Discount earned	50
Sales returns	1500	Provision for Bad Debts	750
Carriage Inward	350	Accrued salaries	100
Opening Stock	11000	Loan (6% taken on 1/10/2019)	11000
Wages	6000		
Sundry Debtors	17600		
Salaries	2500		
Postage and Telegram	200		
Rent and Insurance	400		
Bad debts	250		
Discounts	100		
Trade Expenses	300		
Furniture	5000		
Commission	500		
Prepaid Insurance	300		
Printing and Stationery	700		
Cash in hand	2000		
Patents	2500		
	126000		126000

Adjustments:

1) Stock as on 31st December 2019 was valued at IQD 15000.
2) Accrued wages IQD 600, and accrued rent IQD 700
3) Provide 10% depreciation on Plant and Machinery and 5% depreciation on Furniture 4.5% interest allowed on capital.
4) Goods worth IQD 250, Withdrawn by the proprietor for self-use.
5) Goods worth IQD 5000 destroyed by fire and insurance company admitted a claim for IQD 4200.
6) Provide 5% P.D.D. for Sundry Debtors.

Required: Prepare a trading account and profit and loss account for the year ended 31st December 2019 and the balance sheet as on that date.

Solution:

Nasser Traders-Trading and Profit and Loss Account

For the year ended 31st Dec. 2019

Particulars	IQD	Dr. IQD	Particulars	IQD	Cr. IQD
To Opening Stock		11000	By Sales	75500	
To Purchases	47500		Less: Returns Inward	(1500)	74000
Less: Returns Outward	(1000)		By Goods lost by fire		5000
	46500		By Closing Stock		15000
Less: Goods Withdraw	(250)	46250			
To Wages	6000				
Add: Accrued Wages					
To Carriage inward	600	6600			
To Gross Profit (c/d)		350 29800			
		94000			94000
To Salaries		2500	By Gross Profit (b/d)		29800
To Postage and Telegram			By Discount (Cr.)		50
To Rent and Insurance		200			
Add: Accrued Rent	400				
To Depreciation:	700	1100			
P&M					
Furniture	600				
To P.D.D.	250	850			
Bad Debt	250				
Add: Further New Provision	880				
Less: Old Provision					
To Interest on loan	1130				
To Interest on capital	(750)	380			
To Discount (Dr.)		165 1250			
To Trade expenses		100			
To Commission		300			
To Printing and Stationery		500			
To Loss by fire A/c					
To New Profit (c/d)		700			
		800 21005			
		29850			29850

Nasser Traders - Balance Sheet as on 31st December 2019

Assets	IQD	IQD	Liabilities	IQD	IQD
Plant and Machinery			Capital	25000	
Less: Depreciation	6000		Less: Drawings	(750)	
Land and Building	(600)	5400		24250	
Furniture		20000	Less: goods Drawings		
Less: Depreciation 5%	5000			(250)	
			Add: Interest 5%[1]	24000	
	(250)	4750		1250	

Assets	IQD	IQD	Liabilities	IQD	IQD
			Add: Net Profit	25250 21005	 46255
Closing Stock Patents Insurance claim Prepaid insurance		15000 2500 4200 300	Loans Add: Interest on loan (at 6% for 3 months)(2)	11000 165	 11165
Sundry Debtors Less: New Provision Cash at bank Cash in hand	17600 (880)	 16720 550 2000	Sundry Creditors Accrued Salaries Accrued Wages Accrued Rent	 600 700	12600 100 1300
		71420			71420

- **Explanation Notes:**

(1) Interest on capital

Interest on capital = 25000 x 5% x 12/12= IQD 1250

(2) Interest on loan taken

Interest on loan = 11000 x 6% x 3/12 = IQD 165

Exercise (3)

AL-Shammy Auditing Office is prepared the following Trial Balance as on 31-12-2019(Amounts in IQD Thousands).

Debits	IQD	Credits	IQD
Loss in Fire	1000	Capital	20000
Buildings	40000	Loan at 10%	60000
Furniture & Fittings	5000	Creditors	8460
Plant and Machinery	58000	Doubtful Debts Provision	2000
Debtors	48000	Bills Receivable	8520
Bills Payable	8150	Returns to suppliers	5000
Bank Shares	5200	Carriage on sales	2500
Commission received	2870	Sales	149540
Stock (1-1-2019)	28180		
Cash in hand	880		
Manufacturing expenses	7820		
Salaries	3940		
Postage & Telegrams	540		
Rates	950		
Printing & Stationery	860		
Insurance	170		
Purchases	29860		
Interest on Loan paid up to 31st October	4500		
Returns form Customers	1100		
Carriage on purchases	1500		
	256020		256020

Required: Prepare the correct Trial Balance, Trading A/c, Profit and Loss A/c for the year ending 31st December 2019 and the Balance Sheet as on that date after taking the following adjustments into accounts:

1) Stock on hand on 31-12-2019 IQD 16450.
2) Makeup the Provision for Doubtful debts to 5% on Debtors.
3) Depreciate Plant at 7, 5% and Furniture at 10%.
4) Accrued Expenses: Salaries IQD 750, Interest on Loan IQD 1500.
5) Wages overpaid IQD 800.
6) Dividend due on Bank shares IQD 520.
7) Insurance company agreed to meet the loss due to fire fully.
8) Commission received in advance IQD 250.

Solution:

Corrected Trial Balance AL-Shammy

Trial Balance as on 31-12-2019

No.	Name of the Account	Dr. IQD	Cr. IQD
1	Capital		20000
2	Loan at 10%		60000
3	Creditors		8460
4	Doubtful Debts Provision		2000
5	Bills Receivable	8520	
6	Returns to suppliers		5000
7	Carriage on sales	2500	
8	Sales		149540
9	Loss in Fire	1000	
10	Buildings	40000	
11	Furniture and Fittings	5000	
12	Plant and Machinery	58000	
13	Debtors	48000	
14	Bills Payable		8150
15	Bank Shares	5200	
16	Commission received		2870
17	Stock (1-1-2019)	28180	
18	Cash in hand	880	
19	Manufacturing Wages	7820	
20	Wages	7500	
21	Salaries	3940	
22	Postage and Telegrams	540	
23	Rates	950	
24	Printing and Stationery	860	
25	Insurance Premium	170	
26	Purchases	29860	
27	Interest on Loan (paid up to 31st October)	4500	

No.	Name of the Account	Dr. IQD	Cr. IQD
28	Returns from customers	1100	
29	Carriage on purchases	1500	
	Total	256020	256020

Al-Shammy Office-Trading Account for the year ending 31-12-2019

Particulars	IQD	Amount IQD	Particulars	IQD	Amount IQD
To Opening Stock		28180	By Sales	149540	
To Purchases	29860		Less :Sales Returns		
Less Purchases Returns			By Goods lost in	(1100)	148440
To Wages	(5000)	24860	Fire		
Less Wages overpaid	7500		By Closing Stock		1000
To Manufacturing wages					
To Carriage on Purchases	(800)	6700			16450
To Gross Profit c/d					
(Transferred to P&L A/c		7820			
		1500			
		96830			
		165890			165890

Profit and Loss Account for the year ending 31st December2019

Particulars	IQD	Dr. IQD	Particulars	IQD	Cr. IQD
To Bad Debts			By Gross Profit b/d		
Add New Bad debts	-----		(Transferred from Trading A/c)		
Add New Provision (5% on Debtors)			By Dividend to be receivable on		96830
Less Old Provision	2400		Bank Shares		
	(2000)	400			
					520
To Interest on Loan	4500		By Commission	2870	
Add Accrued interest	1500	6000	Less Commission received in	(250)	
To Carriage on sales		2500	advance		2620
To Goods lost in fire		1000			
To Insurance Premium		170			
To Salaries	3940				
Add Accrued Salary	750	4690			
To Postage & Telegrams		540			
To Rates		950			
To Printing & Stationery		860			
To Depreciation: Plant at 7,5% To Furniture	4350				
at 10% p.a.	500	4850			
To Net Profit (Transferred to Capital A/c)					
		78010			
		99970			99970

AL-Shammy Office - Balance Sheet as on 31st December 2019

Assets	IQD	IQD	Liabilities	IQD	IQD
Buildings	40000		Capital	20000	
Less Depreciation	(----)	40000	Add Net Profit	78010	98010
Plant and Machinery	58000		Loan at 10%		60000
Less Depreciation at 7,5%	(4350)	53650	Commission received		
Furniture and Fittings	5000		in advance		
Less Depreciation at 10%	(500)	4500	Creditors		250
Closing Stock		16450	Bills Payable		8460
Sundry Debtors	48000		Accrued Expenses:		8150
Less Provision for Doubtful debts			Interest on Loan		
Dividend on Bank Shares	(2400)	45600	Salary		
Wages overpaid		520		1500	
Amount to be receivable from Insurance		800		750	2250
company for goods lost in fire					
Bills receivable					
Bank Shares		1000			
Cash in hand		8520			
		5200			
		880			
		177120			177120

5- SUMMERY ADJUSTMENTS ملخص التسويات

No.	Adjustments	Entry	Place in Trading P. & L A/c	Place in Balance Sheet
1	Accrued Expenses or Accrued Creditors	Accrued Expenses A/c Dr To creditors A/c (Being outstand expenses adjusted)	Add to Expenses in Trading or P&L A/c (Debit side)	Liabilities side
2	Prepaid expenses	Prepaid expenses A/c Dr. To Expenses A/c (Being the prepaid expenses adjusted	Less from Expenses in Trading or P&L A/c (Debit side)	Assets side
3	Accrued Revenues	Accrued A/c Dr. To Revenues A/c (Being the accrued Revenue adjusted)	Add to Revenues in P&L A/c (Credit side)	Assets side
4	Revenues received in advance	Income A/c Dr. To Revenue received in advance A/c (Being the Revenue received in advance adjusted)	Less from Revenue P&L A/c (Credit side)	Liabilities side
5	Closing Stock	Closing Stock A/c Dr To Trading A/c (Being the closing stock brought into account)	Trading A/c (Credit side)	Assets side
6	Depreciation	Depreciation A/c Dr. To Asset A/c (Being- % depreciation provided)	P&L A/c (Debit side)	Less from Concerned asset on assets side
7	Writing off Bad debts	Bad debts A/c Dr. To Sundry Debtors A/c (Being the Bad Debts Written off)	Add to Bad debts in P&L A/c (Debit side)	Less from concerned asset on assets side
8	Provision for Doubtful debts	Profit & Loss A/c Dr. To Provision for Doubtful Debts A/c (Being the provision created)	P&L A/c (Debit side)	Less Doubtful Side From Sundry debtors on assets side

No.	Adjustments	Entry	Place in Trading P. & L A/c	Place in Balance Sheet
9	Provision for Discount on Debtors	Profit & Loss A/c Dr. To Provision for Discount on Debtors A/c (Being the provision created)	P&L A/c (Debit side)	Less From the amount of good sundry debtors on assets side
10	Provision for Discount on creditors	Provision for Discount on creditors A/c Dr. To Profit & Loss A/c (Being the provision created)	P&L A/c.... (Credit side)	Less From sundry creditors on liabilities side
11	Interest on capital	Interest on capital A/c Dr. To Capital A/c (Being the interest on capital provided for)	P&L A/c.... (Debit side)	Add to capital on the liabilities side
12	Interest on Drawings	Drawings A/c Dr. To Interest on Drawings A/c	P&L A/c (Credit side)	Add to drawings and then Less from the total of the capital on liabilities side

Terminology المصطلحات

Accrued expense	مصروفات مستحقة	Interest on Capital	فائدة راس المال
Accrued revenues	ايرادات مستحقة	Interest on Drawings	فائدة المسحوبات
Adjusting entries	قيود تسوية	Interest on Mortgage	فائدة الرهن
Adjustments	تسويات	Maintaining fixed	صيانة ثابتة
Apprentice premium	مكافاة تدريب	New Provision	مخصص جديد
Bad debts	ديون معدومة	Normal rate	معدل عادي
Bank Deposit	ايداع بنكي	Old Provision	مخصص قديم
Bank Overdraft	السحب على المشكوف	Portion	حصة، نصيب
Charge interest	فائدة محملة	Prepaid exp.	مصاريف مدفوعة مقدما
Combination	توليف ، تركيب	Prompt payment	الدفع العاجل
Concurrent	متنافس	Proprietor	المالك
Discount on Creditors	خصم الدائنين	Provision	المخصص
Discount on Debtors	خصم المدينين	Doubtful Debts	الديون المشكوك فيها
Dishonored bill	كمبيالة مرفوضة	Revenue Expenditures	مصاريف ايرادية
Early payment	الدفع المبكر	Revenues earned	الايرادات المحصلة
Enhancements	التعزيزات	Revenues not paid yet	الايرادات لم تدفع بعد
Expenditures	المصاريف	Settlements	تسويات، ترتيبات
Fixtures & Fittings	اثاث وتجهيزات	Subtract	يطرح
Freehold premises	مبنى ممتلك	Sundry Debtors	مدينون متنوعون
Inflows	تدفقات داخلة	Unearned revenues	الايرادات غير المقبوضة
Insurance unexpired	تامين غير منتهي	Unexpired taxes	الضرائب غير المنتهية

QUESTIONS AND EXERCISES

A- QUESTIONS

1- Give certain examples illustrating how ascertain expenditure can be regarded as a capital expenditure as well as revenue expenditure under different circumstances.

2- What are prepaid expenses and unearned revenues?

3-What are adjusting entries, why are they needed for preparing financial statements?

4-What are accrued expenses and accrued revenues. Give an example of an adjustment to record each of these items?

5- What is an accrued expense? Give examples.

6-What is prepaid expense? Give examples.

7- Explain how assets are capital expenditures showing the importance of criteria to distinguish between capital expenses and revenue expenses.

8- Define the following: prepaid expenses, accrued expenses, unearned revenues, accrued revenue and show the accounting treatments by examples on each.

9- Define, unearned revenues, accrued revenue and give an example on each; show the accounting treatment?

10- State the Considerations which would guide you in deciding whether any particular item should be regarded as of a capital or revenue expenditure nature.

11- Why is the distinction between capital and revenue expenditure is of great importance in accounting?

12- State whether each of the following statements is True or False

1) Adjustment entries are made at the time of closing the business every day.
2) Furniture and fittings are classified as capital expenditure.
3) The distinction between capital and revenue items is important because it is of fundamental importance to the determination of profits.
4) An expenditure which will benefit the future period is capital expenditure.
5) The balance of all the prepaid expenses in the ledger will be credit.
6) Depreciation charged on the assets is added to concerned asset, in the balance sheet.
7) Accrued expenses are the liabilities of the business.
8) Every adjustment is shown at two places in the final accounts.

9) Adjustment entries are passed throughout out the year like other entries.

13- Select the most appropriate answer:

(1) Accrued Salaries are shown as:

(a) An expense (b) A Liability (c) An asset

(2) Cost of goods purchased for resale is an example of:

(a) Deferred revenue Expenditure (b) Revenue Expenditure (c) Capital Expenditure.

(3) Repairs incurred before using a second hand car purchased recently is a:

(a) Capital Expenditure (b) Revenue Expenditure (c) Deferred revenue Expenditure.

(4) Adjusting entries are essential to:

(a) Matching rule (b) Accrual accounting (c) A proper determination of net income (d) All of the above are correct.

14- Match the following:-

"A"		Ans.	"B"
1)	Accrued expenses	a	Investment made into the business by proprietor.
2)	Revenue receivable	b	Is an asset of the business?
3)	Depreciation	c	Is a liability of the business?
4)	Prepaid expenses	d	Deducted from asset concerned.
5)	Drawings	e	Shown on the asset side of Balance Sheet.
6)	Capital	f	Deducted from capital.

15- Choose the correct answer:

(1)..Unearned revenue is account.

a- an asset b- a liability c- an expense d- a revenue

➢ If the balance of rent revenue at Dec. 31, 2019 is IQD 1200000 and the rent contract is for three years answer question from (2) to (4):

(2) The amount of unearned rent revenue at Dec, 31, 2019 is:

a- 400000 b-600000 c-1200000 d- 800000

(3) The amount of earned rent revenue for 2019 is:

a- 400000 b-600000 c-1200000 d- 800000

(4) The adjusting entry at Dec., 31,2019 is:

a- Unearned rent revenue A/c Dr. 800000
To rent revenue A/c Dr. 800000

b- Rent revenue A/c 800000
To unearned rent revenue A/c Dr. 800000

c- Rent revenue A/c Dr. 400000
To unearned rent revenue A/c 400000

d- None of all the above.

(5) The balance of unearned revenue is IQD 3000000; one - third of this amount is earned during this accounting period. The adjusting entry is:

a- Earned revenue A/c Dr. 1000000

To unearned rent revenue A/c 1000000

b- Unearned revenue A/c Dr. 2000000

To earned revenue A/c 2000000

c- Unearned revenue A/c Dr. 1000000

To earned revenue A/c 1000000

d- Unearned revenue A/c Dr. 1000000

To occurred revenue A/c 1000000

(6) Adjusting entries are made to ensure that:

a- Expenses are recognized in the period in which they are incurred.

b- Revenues are recorded in the period, in which they are earned,

c- Balance sheet and income statement accounts have correct balances at the end of an accounting period,

d- All of the above.

16- Choose the correct answer:

(1)............................... Prepaid insurance is account

(a) an asset (b) a liability (c) an expense (d) a revenue

☞If monthly wages is IQD 100000 and the balance of wages expenses at the end of the year is IQD 680000 .Answer (2), and (3).

(2) Salaries expenses for the year are:

a- 520000 b- 680000 c- 1200000 d- 1880000

(3) The adjusting entry is:

a- Salaries expenses Dr A/c. 680000

To accrued salaries A/c 680000

b- Salaries expenses Dr. A/c 520000

To prepaid salaries A/c 520000

c- Salaries expenses Dr. A/c 520000

To accrued salaries A/c 520000

d- Accrued salaries Dr. A/c 520000

To Salaries expenses A/c 520000

(4) Each of the following is a major category of adjusting entry except.

(a) accrued revenues (b) earned revenues

(c) accrued expenses (d) prepaid expenses

(5) If the balance of prepaid insurance at Dec., 31, 2019, is IQD 2000000, the insurance policy covers two years 2019, and 2020 the adjusting entry is to credit:

(a) insurance expenses (b) prepaid insurance

(c) Accrued insurance (d) No adjusting entry.

17- Complete the following Sentences by choosing the correct alternative

(1) Preparation of final accounts consists of:-

(a) Revenue accounts alone (b) Balance Sheet only

(c) Trial Balance

(2) Accrued expenses are:

(a) Nominal accounts (b) Properties (c) Personal accounts

(3) Balance sheet is containing the balances of

(a) Real and Personal accounts (b) Real and Nominal accounts

(c) Nominal and Personal accounts

(4) Prepaid insurance appears in

(a) Trading account (b) Profit and Loss account (c) List of asset

(5) Depreciation is a

(a) Gain (b) Loss (c) Appreciation

(6) Revenue earned but not received is

(a) A liability (b) An asset (c) A gain

(7) Interest on Drawings is deducted from

(a) Net profit (b) Drawings (c) Capital

(8) Closing Stock is valued at

(a) Cost price (b) Market price (c) Cost price or market price whichever is lower

18- For each question given below there are three answers, indicate the correct answer by mentioning (a), (b),(c).

(1) Depreciation is a process of:

(a) Valuation (b) allocation (c) Both valuation and allocation.

(2) The main objective of providing depredation is :

(a) to calculate true profit (b) to show the true of financial position

(c) to provide funds for replacement of fixed assets.

(3) Accrued salaries are shown as:

(a) An expense (b) A liability (c) An asset

(4) Adjusting entries are essential to:

(a) Matching principle (b) Accrual principle

(c) A proper determination of net income.

(5) Prepaid insurance appears in :

(a) Trading accounting (b)Profit and loss accounting (c)Balance sheet.

(6) Depreciation is:

(a) Gain (b) Loss (c) Expense.

(7) Revenue earned but not received is: -

(a) A liability (b) An asset (c) Nominal account.

(8) Ending stock is valued at:-

(a) Cost price (b) Market price

(c) Cost price or market price whichever is lower.

(9) Interest on drawings is deducted from: -

(a) Net profit (b) Drawings (c) Capital

B- EXERCISES

1- On October, 1, 2019 If Issra' company received IQD 4800000 for supplying services to Fida's office for the coming four years. Both of them have fiscal year ending December 31.

Required: Recording and positing October 1, entry and adjusting entry at Dec. 31, 2019 for:

(1) Al - Issra' company.

(2) Fida's office.

2- The ledger of Salem agency on June 30 of the current year includes the following selected accounts before adjusting entries have been prepared:

Accounts Title	Debit	Credit
Prepaid insurance	3000000	
Office supplies	2000000	
Equipment	20000000	
Accumulated depreciation		8000000
Unearned rent revenue		6000000
Rent revenue		6000000
Interest Expense	6000000	
Wage expense	7000000	

An analysis of accounts shows the following:

1- The equipment depreciates IQD 800000 per month.

2- One - sixth of the unearned revenue is earned during the six months.

3- The total supplies on hand IQD 800000.

4- Insurance expires IQD 1000000.

5- Monthly wages are IQD 1000000.

Required:

(1)Prepare the adjusting entries at June 30.

(2)Show the effect of the adjusting entries on the balances of the selected above accounts.

3- On July 1, 2020, Ali's advertising company paid IQD 600000 for three years rent contract to AL-Bader. The fiscal years for both ending at Dec. 31.

Required: Journalize (record in journal) and post the entry on July, 1 and the adjusting entry for:

(1) Ali's advertising company.

(2) AL-Bader

4- On 1st of October 2019, Mr. Yasser received IQD 2400000 for two years' service supplying contract to Miss. Layla, The fiscal year for both ending at December 31.

Required: Journalize and post the entry on October 1, and adjusting entry for

(1) Mr.Yasser's.

(2) Miss. Layla's.

5- State with reasons which of the following items should be taken as of a capital and which of a Revenue expenditure nature.

(a) IQD 600000 paid for removal of stock to a new site.

(b) IQD 1000000 paid for erection of a new machine.

(c) Cost of IQD 10000000 incurred in increasing the sitting accommodation and IQD 5000000 in repainting of a cinema house.

(d) IQD 1100000 was spent on painting the new factory.

6- The following balances are the extracts from the Trial balance of a firm as on 31st December, 2019.

Trial balance as on 31st December 2019

No	Particulars	Dr	Cr
1	Salaries	10000000	
2	Rent	4000000	
3	Interest on Investments		900000
4	Interest on Loan		2000000

Additional Information:

(a) Salary for the month of December IQD 2000000 has not yet been paid,

(b) Rent IQD 500000 has paid for the next year.

(c)The amount of accrued interest on investments amounted to IQD 450000.

(d) Interest on Loan has been received in advance to the extent of IQD 500000.

Required:

Pass the necessary adjustment entries and show how the various items will appear in the firm's Final Accounts.

7- 8% from IQD 1000000 debentures are issued on 1st April, 2020, Interest is payable on 30 June each year. Accounts are closed on 31 December each year.

Required:

(1)Record the debenture Interest for two calendar years in the books of the firm?

(2)Prepare the necessary accounts in Ledger.

(3)Show the Ledger balance on the final accounts.

8- Give the adjustment entries for the following:

1) Stock on hand on 31-12-2019 was IQD 7500000.
2) Wages IQD 15000 due but not paid.
3) Wages IQD 25000 overpaid.
4) Commission IQD 200000 due but not received.
5) Interest IQD 75000 received in advance.
6) Depreciation charged on Business premises IQD 300000.
7) Interest on Capital IQD 200000.
8) Interest on Drawings IQD 75000.
9) Goods lost in fire IQD 500000. The insurance company admitted to pay in full.
10) Consumption of stationery IQD 200000.

9- The flowing transactions are incurred by faouzi during the year 2019.

(1)November 1, 2019 Faouzi decides to open an international communications service and invest 600000 IQD cash in his business.

(2)November 15, he hires an employee with a weekly salary of 5000 IQD.

(3)November 25, he purchased a computer for 100000 IQD on credit from modern technology.

(4)November 30, he paid cash the following management expenditures:-

- Advertising expense IQD 25000
- Utilities expenses IQD 5000
- Rent expense in advance IQD 40000

(5) This business is prepared financial statements a weekly basis.

Required:-

(1) Record the above transactions in an international communications service general.

(2) Post the entries of these transactions to cash A/c and prepaid Rent A/c.

(3) Record the adjusting entry for the Rent expense November 7, and show it effect on the Balance sheet at the same date.

10- The following are the balances taken from the books of Mr. Nehad on 31st March 2020(Amounts in IQD Thousands).

Particulars	IQD	Particulars	IQD
Capital	30000	Sales	150000
Drawings	5000	Sales Returns	2000
Furniture	2600	Discount allowed	1600
Bank Overdraft	4200	Discount received	2000
Creditors	13300	Taxes	2000
Building	20000	General Expenses	4000
Stock Opening	22000	Salaries	9000
Debtors	18000	Commission paid	2200
Rent from tenants	1000	Carriage in	1800
Purchases	110000	Bad Debt	800
Provision for Bad Debts	500		

Closing Stock IQD 26000. Depreciate Building by 2, 5 %. Furniture by 10%. Provide Provision for Bad Debts at 5%. Unexpired taxes IQD 900. Allow interest on capital at 5%.

Required:- Prepare Trading and Profit and Loss Account for the year and the Balance Sheet as on closing date.

11- From the following Trial Balance prepare Trading and Profit and Loss account for the year ended 31st December 2019 and Balance Sheet on that date (Amounts in IQD Thousands).

No.	Particulars	Dr.	Cr.
1.	Capital		42500
2.	Drawings	7100	
3.	Plant and Machinery	9500	
4.	Stock as on 1st January	14600	
5.	Purchases and Sales	103620	119060
6.	Purchases and Sales Returns	2100	2910
7.	General Expenses	4400	
8.	Rent	1200	
9.	Rates	2000	
10.	Apprentice premium		800
11.	Bank Overdrafts		2400
12.	Bad Debts	1720	
13.	Sundry Debtors and Sundry Creditors	32000	10000

No.	Particulars	Dr.	Cr.
14.	Cash on hand	480	
15.	Bad Debts Provision		1050
	Total	178720	178720

Make provision for the following:

1) Depreciate plant and machinery at 10% per annum.
2) Increase bad debts provision to 5% on Sundry Debtors.
3) Rent accrued is IQD 400.
4) Rates of IQD 800 are paid in advance.
5) Stock on hand as on 31st December is IQD 17000.
6) Apprentice premium received in advance is IQD 200.

12- Redrawing correctly the Trial Balance given below, give the adjusting and closing entries and prepare the final account (Amounts in IQD Thousands).

Trial Balance

Particulars	Dr. IQD	Particulars	Cr. IQD
Capital	80000	Debtors	75800
Bad Debts Received	2500	Bank Deposit	27500
Creditors	12500	Discounts Allowed	400
Returns Outward	3500	Drawings	6000
Bank Overdraft	15700	Returns Inward	4500
Rent	3600	Sales	146900
Salaries	8500	Bills Payable	13500
Trade Expenses	3000		
Cash in hand	2100		
Stock 1st January 2020	24500		
Purchases	118700		
Total	274600	Total	274600

Adjustments:

1) The Closing Stock on 31st December 2020 was IQD 42000.
2) Write off IQD 800 as Bad Debts and create a Provision for Bad Debts at 5% on Sundry Debtors.
3) Three months' rent is accrued.
4) Interest on Bank Deposit IQD 1350 credited by the Bankers and interest on overdraft IQD 1570 debited by them in the Pass Book have not been entered in the book.

13- Prepare Trading and Profit and Loss account for the year ended 31-12-2019 and Balance Sheet as on this date of Mr. Ahmed , Cloth Merchant,Badgdad from the following Ledger Balance (Amounts in IQD Thousands).

Particulars	Dr. IQD	Particulars	Cr. IQD
Freehold premises	68000	Rate & Taxes	1600
Capital	100000	Carriage	6000
Fixtures & Fittings	18000	Insurance (including premium of IQD 600 Paid up to 31-6-2019)	1500
Wages	39000		
Machinery	30000		
Bills Payable	12000	Debtors	42000
Cash	2400	Interest on Mortgage	1125
Purchases	155600	General Expenses	4700
Salaries	6000	Drawings	14075
Stock	56000	Sales	227000
Sundry Creditors	70000		
Bank Overdraft	12000		
Loan taken at 9% on Mortgage	25000		

The Closing Stock on 31-12-2019 was IQD 65000. The following further information is given:

1) Debtors include a dishonored bill of IQD 2000, which has to be written off. A provision of 4% should be created on debtors.

2) Machinery worth IQD 10000 was added on 1-4-2019. Depreciation at 10% per annum is to be provided on machinery and fixtures and fittings.

3) Wages and salaries are accrued to the extent of IQD 3000 and IQD 500 respectively.

4) During the year, Ahmed had withdrawn goods worth IQD 2000 for this private use for which no entry is passed in the books.

5) Interest on Capital at 9% p.a. should be provided.

14- On 31st March 2020 the following Trial Balance of Hameed was taken out. Pass the Adjustments and closing entries and prepare the Final Accounts for the year after making the following adjustments (Amounts in IQD Thousands).

(a) Depreciation 5% of Plant and Machinery and 10% of Fixtures and Fittings.

(b) Provision for Bad Debts 2.5 % on Sundry Debtors.

(c) Provision for March Rent IQD 150.

(d) Insurance unexpired on 31st March 2020 IQD 70.

(e) Accrued Wages and Salaries IQD 800 and IQD 450 respectively.

(f) Stock on 31st March 2020 IQD 16580.

Trial Balance

Debit Balances	IQD	Credit Balances	IQD
Plant and Machinery	55000	Hameed's Capital	93230
Fixtures and Fittings	1720	Sales	126177

Debit Balances	IQD	Credit Balances	IQD
Factory fuel and power	542	Sundry Creditors	22680
Office Salaries	3745	Purchases Returns	3172
Lighting (Factory)	392	Bills Payable	6422
Travelling Expenses	925		
Carriage on Sales	960		
Cash at Bank	2245		
Cash in hand	68		
Sundry Debtors	47800		
Purchases	83290		
Manufacturing wages	9915		
Rent and Taxes	1765		
Office Expenses	2778		
Carriage on Purchases	897		
Discount (Dr.)	422		
Drawings Account	6820		
Stock on 1st April 2019	21725		
Manufacturing Expenses	2680		
Sales Returns	7422		
Insurance	570		
	251681		251681

15- The following balances are extracted from the books of Ibrahim for the year ended 31-12-2020 (Amounts in IQD Thousands).

Names the accounts	IQD
Ibrahim's Capital	70000
Loose Tools	1800
Purchases	94000
Sales	140000
Fuel and power	3000
Rent received	2470
Insurance	600
Travelling Expenses	3454
Bad Debts	500
Plant and Machinery	49500
Debtors	20500
Opening Stock	7500
Salaries	20000
Trade Marks	3000
Provision for doubtful debts	360
Wages	16000
Deposits (Dr)	3200
Bank (Cr)	8630
Discount earned	2200
Creditors	18000

Names the accounts	IQD
Printing and Stationery	1000
Cash	806
Bills Payable	5000
Income Tax	1800
Buildings	20000

The following adjustments are necessary:

(1) Closing Stock is valued at IQD 16549.

(2) Raise the provision for doubtful debts to IQD 700. Create a provision for discount at 3% on Debtors.

(3) Wages include IQD 500 spent on the installation of a new machinery.

(4) There is a stationery stock of IQD 200 on 31-12-2020.

(5) Insurance is prepaid for a quarter.

(6) Rent received in advance IQD 170.

(7) Stock destroyed by fire amounted to IQD 2000. Insurance company has accepted a claim of IQD 1500.

(8) Loose Tools are valued at IQD 1500 Charge Depreciation on Plant and Machinery at 10%.

Required: Prepare the Trading, Profit and Loss Account for the year ended 31-12-2020 and a Balance Sheet as on that date.

16- On 31st December, 2020 the following Trial Balance was prepared from the books of Bashar (Amounts in IQD Thousands).

	Dr. IQD	Cr. IQD
Sundry Debtors	50600	
Sundry Creditors		10000
Bills Receivable	5000	
Plant and Machinery	75000	
Purchases	90000	
Capital Account		70000
Freehold Premises	50000	
Salaries	11000	
Wages	14400	
Postage and Stationery	750	
Carriage in	750	
Carriage out	1000	
Bad Debts	950	
Bad Debts Provision		350
Office General Charges	1500	
Cash at Bank	5300	
Cash in hand	800	
Bills Payable		5000
Provision		20000

	Dr. IQD	Cr. IQD
Sales		231700
Closing Stock	30000	
	337050	337050

The following adjustments are required:

1) Basher gets a salary of IQD 9000 per annum.
2) Allow 5% interest on Capital.
3) Bad Debts Provision to be adjusted to 2,5% on Sundry Debtors.
4) 2,5 % of the net profit is to be credited to the Provision.

Required: Prepare the Trading and Profit and Loss account of the firm for the year ended 31st December 2020 and a Balance Sheet as on that date.

17- The following Trial Balance of Mr. Amar was prepared for the year ended 31st March, 2020(Amounts in IQD Thousands).

Names of the Accounts	Dr. IQD	Cr. IQD
Land and Buildings	50000	
Purchases	110000	
Stock as on 31 -3-2020	45000	
Returns	1500	2500
Wages	15300	
Salaries	9000	
office expenses	5400	
Carriage in	1200	
Carriage out	2000	
Discounts	750	1200
Bad Debts	12000	
Sales (adjusted)		215000
Capital Account		115000
Nasser's Loan A/c (taken on 1-10-2004 @ 12% p.a.)		15000
Insurance	1500	
Commission		1500
Plant and Machinery	50000	
Furniture and Fixtures	10000	
Bills Receivable	20000	
Sundry Debtors	40000	
Sundry Creditors		25000
Cash in hand	1500	
Cash at Bank	4500	
Office Equipment	12000	
Bills Payable		2350
Expenses Payable		3300
Total	380850	380850

It was the practice of Amar to value stock at 10% below cost. The stock on 31- 3- 2020 was IQD 49500. Amar desires that the financial statements be drawn up according to the cost of the stock. The following adjustments are also required:-

(1) Depreciate Land and Buildings @ 6% Plant and Machinery @ 10% Office Equipment @ 20% and Furniture and Fixture @ 20%.

(2) Raise a Bad and Doubtful Debts Provision of 1% on Sundry Debtors.

(3) Insurance Premium includes IQD 250 paid in advance.

(4) Provide interest on Capital @ 5% p.a. and Salary to Amar @ IQD 1500 p.a..

(5) 10% of the final profit is to be kept in a Provision A/c for investment in national plan loan.

Required: Prepare the financial statements for the year ended 31st March, 2020 and the Balance Sheet as on that date.

➢ **Answers to questions (12, 13, 14):**

No.	1	2	3	4	5	6	7	8	9
12	false	true	true	true	false	false	true	true	true
13	b	b	a	d	-----	-----	-----	-----	-----
14	c	e	d	b	f	a	-----	-----	-----

➢ **Answers to question (15):**

No.	a	b	c	d
1		x		
2				x
3	a			
4		x		
5			x	
6				x

➢ **Answers to question (16):**

No.	a	b	c	d
1	x			
2			x	
3			x	
4		x		
5		x		

➢ **Answer to questions (17), (18)**

No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
17	c	a	b	c	b	b	c	c	----
18	b	c	b	b	c	b	b	c	c

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APPENDIX

(1)

TERMS AND DEFINITIONS

مصطلحات وتعاريف

-A-

- **Accelerated method** (طريقة التعجيل): A method of depreciation that allocates relatively large amounts of the depreciable cost of an asset to earlier years and reduced amounts to later years.
- **Account (حساب):** It is statement containing transactions regarding a particular person, or a particular article or particular item of expenses grouped together for a particular period.
- **Accounting (محاسبة):** An information system that measures, processes, and communicates financial information about an identifiable economic entity.
- **Accounting cycle (دورة محاسبية):** The sequence of steps followed in the accounting system to measure business transactions and transform them into financial statements; it includes analyzing and recording transactions, posting entries, adjusting and closing the accounts, and preparing financial statements.
- **Accounting equation (معادلة محاسبية):** Assets = Liabilities + Owners' Equity or, for corporations, Assets = Liabilities + Stockholders' Equity.
- **Accounting systems (نظم محاسبية):** The processes that gather data, put them into useful form, and communicate the results to management.
- **Accounts (الحسابات):** The labels used by accountants to accumulate the amounts produced from similar transactions.
- **Accounts Payable (A/P)**(**الحسابات الدائنة**) is the opposite of accounts receivable. It arises when a company receives a product or service before it pays for it.
- **Accounts receivable** (**الحسابات المدينة**): Short-term liquid assets that arise from sales on credit at the wholesale or retail level.
- **Accounts receivable aging method (طريقة جدولة الحسابات المدينة):** A method of estimating uncollectible accounts based on the assumption that a predictable proportion of each Dinar of accounts receivable outstanding will not be collected.
- **Accrual (الاستحقاق):** is the recognition of an expense that has not been paid or of revenue has not been received.

- **Accrued Benefits and Payroll as a Current Liability (رواتب ومنافع مستحقة)** This item in the current liabilities section of the balance sheet represents money owed to employees as salary and bonus that the company has not yet paid.
- **Activity depreciation (اندثار النشاط):** Activity depreciation methods are not based on time, but on a level of activity. This could be miles driven for a vehicle, or a cycle count for a machine.
- **Addition (اضافة):** An enlargement to the physical layout of a plant asset..
- **Adjusting entries (قيود تسوية)**: Journal entries prepared at the end of the accounting period to ensure that revenues are recorded in the period in which they are earned, and expenses are recognized in the period in which they are incurred.
- **Aging of accounts receivable (جدولة الحسابات المدينة):** The process of listing each customer's receivable account according to the due date of the account.
- **Allowance for Uncollectible Accounts (مخصص الحسابات غير المحصلة)**: A contra-asset account that reduces accounts receivable to the amount that is expected to be collected in cash; also called Allowance for Bad Debts(مخصص الديون المعدومة).
- **Allowance method (طريقة المخصص):** A method of accounting for uncollectible accounts by expensing estimated uncollectible accounts in the period in which the related sales take place.
- **American Institute of Certified Public Accountants (AICPA** (المعهد الامريكي للمحاسبين القانونيين): The professional association of certified public accountants.
- **Amortization (استهلاك):** The periodic allocation of the cost of an intangible asset to the periods it benefits.
- **Articles of incorporation (مواد قانونية للدمج):** An official document filed with and approved by a state that authorizes the incorporators to do business as a corporation.
- **Asset impairment (اضعاف الاصل):** Loss of revenue-generating potential of a long-lived asset prior to the end of its useful life. The loss is computed as the difference between the asset's carrying value and its fair value, as measured by the present value of the expected cash flows.
- **Assets (أصول):** Assets are properties belonging to a person or business such as cash, Furniture and Buildings.
- **Assets (اصول):** Economic resources owned by a business that are expected to benefit future operations.
- **Assets turnover (دوران الاصول):** A measure of profitability that shows how efficiently assets are used to produce sales; net sales divided by average total assets.

- **Audit (تدقيق):** An examination of a company's financial statements in order to render an independent professional opinion that they have been presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- **Audit committee (هيئة التدقيق):** A subgroup of the board of directors of a corporation that is charged with ensuring that the board will be objective in reviewing management's performance; it engages the company's independent auditors and reviews their work.
- **Authorized stock (اسهم مرخصة):** The maximum number of shares a corporation can issue without changing its charter with the state.
- **Available-for-sale securities (اسهم معدة للبيع):** Debt and equity securities that do not meet the criteria for either held-to-maturity or trading securities.
- **Available-for-sale securities (اسهم معدة للبيع):** Investments held by a company that it may at some point decide to sell.
- **Average days' inventory on hand (معدل المخزون اليومي المتاح):** Days in the year divided by inventory turnover. Shows the average number of days taken to sell inventory.
- **Average days' inventory on hand معدل المخزون اليومي المتاح)):** The average number of days required selling the inventory on hand; number of days in a year divided by inventory turnover.
- **Average days' payable (معدل التسديد بالأيام):** How long, on average, a company takes to pay its accounts payable; 365 days divided by payables turnover.
- **Average days' payable (المعدل اليومي لتسديد الحسابات الدائنة):** Days in year divided by payables turnover. Used to measure days to pay accounts payable.
- **Average days' sales uncollected (المعدل اليومي للمبيعات غير المحصلة):** A ratio that shows on average how long it takes to collect accounts receivable; 365 days divided by receivable turnover.
- **Average days' sales uncollected (معدل ايام المبيعات غير المحصلة):** Days in the year divided by receivable turnover. Shows the speed at which receivables are turned over literally, the number of days, on average, that a company must wait to receive payment for credit sales.
- **Average-cost method (طريقة متوسط الكلفة):** An inventory costing method in which inventory is priced at the average cost of the goods available for sale during the period.

- B -

- **Balance (رصيد):** The difference in Dinars between the total debit footing and the total credit footing of an account. Also called account balance.

- **Balance sheet (ميزانية):** The financial statement that shows the assets, liabilities, and stockholders' equity of a business at a point in time. Also called a statement of financial position.
- **Balance Sheet (ميزانية):** A balance sheet is a statement drawn up at the end of each trading period stating therein all the assets and liabilities of a business arranged in the customary order to exhibit the true and correct state of affairs of the concern as on a given date.
- **Bank reconciliation (مطابقة بنك):** The process of accounting for the difference between the balance appearing on the bank statement and the balance of cash according to the company's records.
- **Base year (سنة اساس):** In financial analysis, the first year to be considered in any set of data.
- **Basic earnings per share (العوائد الأساسية للسهم):** The net income applicable to common stock divided by the weighted-average number of common shares outstanding.
- **Betterment (تحسين، إصلاح):** An improvement that does not add to the physical layout of a plant asset.
- **Bill of exchange (كمبيالة)** An unconditional order issued by a person or business which directs the recipient to pay a fixed sum of money to a third party at a future date.
- **Bills Payable Book (سجل أوراق الدفع)** is one where all bills accepted by the trader are entered. This book is meant for recording Bills payable accepted and sent by us.
- **Bills Receivable Book (سجل أوراق القبض)** is one where all bills received by the trader are entered. This book is meant for recording the bills receivable received.
- **Bond (سند):** A security, usually long term, representing money borrowed from the investing public by a corporation or some other entity.
- **Bond certificate (شهادة سند):** Evidence of an organization's debt to a bondholder.
- **Bond indenture (وثيقة سند اضافية):** A supplementary agreement to a bond issue that defines the rights, privileges, and limitations of bondholders.
- **Bond issue (اصدار السند):** The total value of bonds issued at one time.
- **Book value (قيمة دفترية):** The total assets of a company less its liabilities; stockholders' equity.
- **Book value per share (القيمة الدفترية للسهم):** The equity of the owner of one share of stock in the net assets of the corporation.
- **Bookkeeping (مسك سجلات):** The process of recording financial transactions and keeping financial records.

- **Books of accounts (سجلات الحسابات):** It includes both Journal and Ledger.
- **Brand name (اسم تجاري):** A registered name that can be used only by its owner to identify a product or service.
- **Bulletin boards (مجالس نشرة):** A method for individuals with common interests to share information over the Internet.
- **Business (منشاة تجارية):** An economic unit that aims to sell goods and services to customers at prices that will provide an adequate return to its owners.
- **Business (منشاة):** It refers to buying and selling goods for making profit.
- **Business transaction (معاملة تجارية):** An activity which involves money or money's worth is known as a "transaction" something having value is received; and something having value is given out. (e.g) Bought Furniture for cash.
- **Business transactions (معاملات تجارية):** Economic events that affect the financial position of a business entity.

- C -

- **Capital expenditure (مصروف رأسمالي):** Expenditure for the purchase or expansion of a long-term asset, recorded in an asset account.
- **Capital Expenditure**: An expenditure for the purchase or expansion of a fixed asset.
- **Capital lease (ايجار رأسمالي):** A long-term lease in which the risk of ownership lies with the lessee and whose terms resemble a purchase or sale on installment.
- **Capital (رأس المال):** Capital refers to the sum of the value of goods and amount of cash invested by the person in his business from time to time; It is an asset of the businessman. It is a loan given by the businessman to his business. It is a liability of the business.
- **Carrying value (قيمة دفترية)**: The unexpired part of the cost of an asset, not its market value; also called book value.
- **Cash (النقد):** Coins and currency on hand, checks and money orders from customers, and deposits in bank checking accounts.
- **Cash (النقد):** For purposes of the statement of cash flows, both cash and cash equivalents.
- **Cash Book (سجل النقدية):** Transactions held in cash or by cheque are recorded in this book. There are two sides in a cash book. In the left hand side all cash receipts are recorded and in the right hand side all cash payments are recorded. Cash Book is of five types: single column cash book, double column cash book, triple column cash book, bank cash book and petty cash book.
- **Cash discount (خصم نقدي):** It is the concession given for early payment or timely payment. It will appear in the books of accounts.

- **Cash Discount (خصم نقدي):** Reduction in price give the creditor to the debtor is known as cash discount. This discount is intended to speed payment and thereby provide liquidity to the firm. They are sometimes used as a promotional device.
- **Cash equivalents (مكافئ نقدي):** Short-term investments that will revert to cash in 90 days or less from when they are purchased.
- **Cash flow management (ادارة تدفق نقدي):** The planning of a company's receipts and payments of cash.
- **Cash flow yield (عائد تدفق نقدي):** Net cash flows from operating activities divided by net income. Used to measure the ability of a company to generate operating cash flows in relation to net income.
- **Cash flow yield (عائد تدفق نقدي):** The ratio of net cash flows from operating activities to net income.
- **Cash flows ((التدفقات النقدية :** The inflows and outflows of cash into and out of a business.
- **Cash flows to assets (التدفقات النقدية الى الاصول):** Net cash flows from operating activities divided by average total assets. Used to measure the ability of assets to generate operating cash flows.
- **Cash flows to assets (التدفقات النقدية للأصول):** The ratio of net cash flows from operating activities to average total assets.
- **Cash flows to sales (التدفقات النقدية الى المبيعات):** Net cash flows from operating activities divided by net sales. Used to measure the ability of sales to generate operating cash flows.
- **Cash flows to sales (التدفقات النقدية الى المبيعات):** The ratio of net cash flows from operating activities to sales.
- **Cash trade (متاجرة نقدية) : When goods are bought and sold by a trader for cash , it is a "cash trade"**
- **Cash transaction (معاملة نقدية):** Immediate involvement of cash.
- **Cash-generating efficiency (فعالية توليد النقد):** The ability of a company to generate cash from its current or continuing operations.
- **Certified public accountants (CPAs) (المحاسبين القانونيين):** Public accountants who have met the stringent licensing requirements set by the individual states.
- **Chart of accounts (خارطة الحسابات):** A scheme that assigns a unique number to each account to facilitate finding the account in the ledger; also, the list of account numbers and titles.

- **Chart of accounts (خارطة حسابات):** A complete listing of account numbers and the associated account titles.
- **Check (شيك):** A written order to a bank to pay the amount specified from funds on deposit.
- **Check authorization (شيك مصدق):** A form prepared by the accounting department after it has compared the receiving report for goods received with the purchase order and the invoice. It permits the issuance of a check to pay the invoice.
- **Cheques (شيكات)** are written orders from account holders instructing their banks to pay specified sums of money to named beneficiaries.
- **Classification (تصنيف):** The process of assigning transactions to the appropriate accounts.
- **Classified financial statements (قوائم مالية مصنفة):** General-purpose external financial statements that are divided into subcategories.
- **Closing entries (قيود اقفال):** Journal entries made at the end of an accounting period that set the stage for the next accounting period by clearing the temporary accounts their balances and that summarize a period's revenues and expenses.
- **Commercial Paper (CP)** is an unsecured money market instrument issued in the form of a promissory note.
- **Commercial paper (ورقة تجارية):** A means of borrowing short-term funds by using unsecured loans that are sold directly to the public, usually through professionally managed investment firms.
- **Common stock (سهم عادي):** Shares of stock that carry voting rights but that rank below preferred stock in terms of dividends and the distribution of assets.
- **Common-size statement (كشف شامل):** A financial statement in which the components of a total figure are stated in terms of percentages of that total.
- **Comparability (قابلية المقارنة):** The convention of presenting information in a way that enables decision makers to recognize similarities, differences, and trends over different time periods or between different companies.
- **Compatibility principle (مبدأ التوافق او الاتساق):** The principle that holds that the design of an accounting system must be in harmony with the organizational and human factors of the business.
- **Compensating balance (الرصيد المعوض او المكافئ):** A minimum amount that a bank requires a company to keep in its account as part of a credit-granting arrangement.
- **Complex capital structure (هيكل راس المال المركب):** A capital structure that includes convertible preferred stocks or bonds, or stock options that can be converted into common stock.

- **Composite depreciation method :(طريقة اندثار مركب**) The composite method is applied to a collection of assets that are not similar, and have different service lives.
- **Compound entry (القيد المركب):** An entry that has more than one debit or credit entry.
- **Compound interest (فائدة مركبة):** The interest cost for two or more periods if we assume that after each period the interest of that period is added to the amount on which interest is computed in future periods.
- **Comprehensive income (الدخل الشامل):** The change in a company's equity during a period from sources other than owners; it includes net income, changes in unrealized investment gains and losses, and other items affecting equity.
- **Computer (حاسوب**): An electronic tool for the rapid collection, organization, and communication of large amounts of information.
- **Computer operator (مشغل كومبيوتر):** A person who uses a computer to complete job-related tasks.
- **Conservatism (التحفظ):** The convention mandating that, when faced with two equally acceptable alternatives, the accountant must choose the one least likely to overstate assets and income.
- **Consignment (بضاعة الأمانة**): Merchandise placed by its owner (the consignorالمودع) on the premises of another company (the consigneeالمودع لديه) with the understanding that payment is expected only when the merchandise is sold and that unsold items may be returned to the consignor.
- **Consistency (الثبات، التناسق**): The convention requiring that an accounting procedure, once it is adopted, not be changed from one period to another unless users are informed of the change.
- **Consolidated financial statements (قوائم مالية موحدة):** Financial statements that reflect the combined operations of a parent company and its subsidiaries.
- **Consumer Deposits (ودائع المستهلك**) If you are looking at the balance sheet of a bank, you will want to pay close attention to an entry under the current liabilities called "Consumer Deposits".
- **Contingent liability (الالتزام الطارئ**): A potential liability that can develop into a real liability if a possible subsequent event occurs.
- **Contingent liability (الالتزام الطارئ):** A potential liability that depends on a future event arising out of a past transaction.
- **Contra (العكس**): It means opposite or the other side.
- **Contributed capital (رأس المال المساهم به):** The part of stockholders' equity that represents the amount invested in the business by the owners (stockholders).

- **Control (رقابة):** The ability of an investing company to decide the operating and financial policies of another company through ownership of more than 50 percent of that other company's voting stock.
- **Control activities (انشطة الرقابة):** Procedures and policies established by management to ensure that the objectives of internal control are met.
- **Control environment (بيئة الرقابة):** The overall attitude, awareness, and actions of the owners and management of a business, as reflected in philosophy and operating style, organizational structure, methods of assigning authority and responsibility, and personnel policies and practices.
- **Control principle (مبدأ الرقابة):** The principle that holds that an accounting system must provide all the features of internal control needed to protect the firm's assets and ensure that data are reliable.
- **Conventions (اعراف، تقاليد):** Rules of thumb or customary ways of recording transactions or preparing financial statements.
- **Convertible bonds (سندات قابلة للتحويل):** Bonds that can be exchanged for other securities of the corporation, usually its common stock.
- **Convertible preferred stock (أسهم ممتازة قابلة للتحويل):** Preferred stock that can be exchanged for common stock at the option of the holder.
- **Copyright (حق التأليف):** An exclusive right granted by the federal government to the possessor to publish and sell literary, musical, or other artistic materials for a period of the author's life plus 50 years; includes computer programs.
- **Corporation (شركة مساهمة):** A business unit granted a state charter recognizing it as a separate legal entity having its own rights, privileges, and liabilities distinct from those of its owners.
- **Corporation (شركة مساهمة):** A separate legal entity having its own rights, privileges, and liabilities distinct from those of its owners.
- **Cost (تكلفة):** The exchange price associated with a business transaction at the point of recognition.
- **Cost adjusted to market method (طريقة كلفة معدلة لسعر السوق):** A method of accounting for available-for-sale securities at cost adjusted for changes in the market value of the securities.
- **Cost flow (تدفق نقدي):** The association of costs with their assumed flow in the operations of a company.
- **Cost of goods sold (كلفة البضاعة المباعة):** The amount a merchandiser paid for the merchandise that was sold during an accounting period or the cost to a manufacturer of

manufacturing the products that were sold during an accounting period. Also called cost of sales (كلفة المبيعات).

- **Cost principle (مبدأ التكلفة):** The practice of recording a transaction at cost.
- **Cost-benefit (الكلفة – المنفعة):** The convention holding that benefits which are gained from providing accounting information should be greater than the costs of providing that information.
- **Cost-benefit principle (مبدأ الكلفة -المنفعة):** The principle that holds that the benefits derived from accounting system and the information it generates must be equal to or great than its cost.
- **Coupon bonds (سندات قسيمة):** Bonds that are usually not registered with the issuing organization but instead bear interest coupons stating the amount of interest due and the payment date.
- **Credit (ائتمان):** Denotes giving aspect. Further it refers to writing the entry on the right hand side of the note book.
- **Credit (دائن):** The right side of an account.
- **Credit trade (تجارة الائتمان):** It is credit trade when payments for goods purchased or receipt for goods sold is deferred (تحول) to some future date.
- **Credit transaction (معاملة ائتمان):** Future payment or receipt of cash.
- **Creditor (دائن):** A creditor is a person who gives the benefit to the business. Therefore, the business has to give money in future to him.
- **Cumulative effect of an accounting change (الأثر المتراكم للتغيير المحاسبي):** The effect that a different accounting principle would have had on the net income of prior periods if it had been used instead of the old principle.
- **Cumulative preferred stock (الأسهم الممتازة المتراكمة):** Preferred stock on which unpaid dividends accumulate over time and must be satisfied in any given year before a dividend can be paid to common stockholders.
- **Current assets (أصول متداولة):** Cash and other assets that are reasonably expected to be converted to cash, sold, or consumed within one year or within a normal operating cycle, whichever is longer.
- **Current liabilities (مطلوبات متداولة):** Debts and obligations expected to be satisfied within one year or within the normal operating cycle, whichever is longer.
- **Current liabilities (مطلوبات متداولة):** Obligations due to be paid or performed within one year or within the normal operating cycle, whichever is longer.
- **Current ratio (نسب متداولة):** A measure of liquidity; current assets divided by current liabilities.

- **Current ratio (نسب متداولة):** Current assets divided by current liabilities. Used as an indicator of a company's liquidity and short-term debt-paying ability.
- **Current Liabilities (المطلوبات المتداولة)**: are the debts a company owes which must be paid within one year. They are the opposite of current assets. Current liabilities includes things such as short term loans, accounts payable, dividends and interest payable, bonds payable, consumer deposits, and reserves for taxes.

- D -

- **Data processing (تشغيل البيانات):** The means by which an accounting system gathers data, organizes them into useful forms, and issues the resulting information to users.
- **Date of declaration (تاريخ القرار):** The date on which the board of directors declares a dividend.
- **Date of payment (تاريخ الدفع):** The date on which payment of a dividend is made.
- **Date of record (تاريخ التسجيل):** The date on which ownership of stock for the purpose of receiving a dividend is determined.
- **Debit (مدين):** Denotes receiving aspect. Further it refers to writing the entry on the left hand side of the account note book.
- **Debit (مدين):** The left side of an account.
- **Debt to equity ratio (نسبة الدين إلى حق الملكية):** A ratio that measures the relationship of assets financed by creditors to those financed by stockholders; total liabilities divided by stockholders' equity.
- **Debt to equity ratio (نسبة الدين إلى حق الملكية)**: Total liabilities divided by stockholders' equity. Used to measure the relationship of debt financing to equity financing, or the extent to which a company is leveraged.
- **Debtor(مدين):** He is a person who receives the benefit and owes money to the business.
- **Declining-balance method (or Reducing balance method (طريقة الرصيد المتناقص):** Depreciation methods that provide for a higher depreciation charge in the first year of an asset's life and gradually decreasing charges in subsequent years are called **accelerated depreciation method**.
- **Declining-balance method (طريقة الرصيد المتناقص)**: An accelerated method of depreciation in which depreciation is computed by applying a fixed rate to the carrying value (the declining balance] of a tangible long-lived asset.
- **Deferred Income Taxes (ضرائب الدخل المحولة):** The account used to record the difference between the Income Taxes Expense and Income Taxes Payable accounts.
- **Deficit (عجز):** A debit balance in the Retained Earnings account.

- **Definitely determinable liabilities (المطلوبات المحددة بشكل نهائي):** Current liabilities that are set by contract or by statute and can be measured exactly.
- **Depletion (نفاذ، نضوب):** The exhaustion of a natural resource through mining, cutting, pumping, or other extraction, and the way in which the cost is allocated.
- **Depreciable cost** ((الكلفة المندثرة The cost of an asset less its residual value.
- **Depreciation (اندثار):** The periodic allocation of the cost of a tangible long-lived asset (other than land and natural resources) over its estimated useful life.
- **Depreciation :**A non-cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence.
- **Direct charge-off method (طريقة التحميل المباشر)**: A method of accounting for uncollectible accounts by directly debiting an expense account when bad debts are discovered instead of using the allowance method; this method violates the matching rule but is required for federal income tax computations.
- **Direct method (طريقة مباشرة):** The procedure for converting the income statement from an accrual basis to a cash basis by separately adjusting each item on the income statement.
- **Discarding the asset شطب الأصول)**) when asset is no longer useful to the business and have no market value, it is usually discarded.
- **Discontinued operations (العمليات غير المستمرة)**: Segments of a business that are no longer part of its ongoing operations.
- **Discount (الخصم):** The amount by which the face value of a bond exceeds the issue price; occurs when the market interest rate is higher than the face interest rate.
- **Discounting (قطع أوراق القبض):** A method of selling notes receivable in which the bank deducts the interest from the maturity value of the note to determine the proceeds.
- **Dishonored note (الورقة المرفوضة):** A promissory note that the maker cannot or will not pay at the maturity date.
- **Disposal of Fixed Assets (التصرف بالأصول الثابتة):** The main issue is how to treat (record) the disposal of the asset. A gain or loss should be recognized equal to the difference between the book value (قيمة دفترية) of the asset and the proceeds from disposal (عائدات البيع).
- **Diversified companies (شركات التنويع):** Companies that operate in more than one industry; also called conglomerates.
- **Dividend (حصة ربحية):** The distribution of a corporation's assets (usually cash generated by past earnings to its stockholders.

- **Dividends (حصص):** Distributions to stockholders of assets (usually cash) generated by past earnings.
- **Dividends in arrears (حصص متأخرة):** Past dividends on cumulative preferred stock, that remains unpaid.
- **Dividends yield (عائد الحصص):** Current return to stockholders in the form of dividends; dividends per share divided by market price per share.
- **Dividends yield (عائد الحصص):** Dividends per share divided by market price per share. Used as a measure of the current return to an investor in a stock.
- **Double taxation (ضريبة مضاعفة):** The act of taxing corporate earnings twice once as the income of the corporation and once as the dividends distributed to stockholders.
- **Double-declining-balance method (طريقة مضاعف الرصيد المتناقص):** An accelerated method of depreciation in which a fixed rate equal to twice the straight-line percentage is applied to the carrying value (the declining balance) of a tangible long-lived asset.
- **Double-entry system(نظام القيد المزدوج):** The accounting system in which each transaction is recorded with at least one debit and one credit so that the total dollar amount of debits and the total dinar amount of credits equal each other.
- **Drawings(مسحوبات):** When a business man takes money from the Business for his personal use, it is known as drawings.
- **Duration of note (فترة الورقة التجارية):** The length of time in days between a promissory notes issue date and its maturity date.

- E -

- **Early extinguishment of debt (تسديد المسبق للدين):** The retirement of a bond issue before its maturity date.
- **Earnings per share عائد السهم)):** Net income earned on each share of common stock; net income divided by the average number of common shares outstanding during the year. Also called net income per share or net earnings per share.
- **Effective interest method (طريقة الفائدة الفعلية):** A method of amortizing bond discounts or premiums that applies a constant interest rate, the market rate at the time the bonds were issued, to the carrying value of the bonds at the beginning of each interest period.
- **Electronic commerce (التجارة الالكترونية):** The conducting of business transactions on computer works, including the Internet.
- **Electronic funds transfer (EFT) (تحويل الأموال الكترونيا):** The transfer of funds from one bank to another through electronic communication.
- **Electronic mail (E-mail) (البريد الالكتروني):** The sending and receiving of communications over a network.

- **Eliminations (إلغاء):** Entries made on consolidation work sheets to eliminate transactions between parent and subsidiary companies.
- **Entry (قيد يومية):** Recording of a transaction in account books is called entry.
- **Errors of commission (أخطاء ارتكابية):** a transaction that is calculated incorrectly.
- **Errors of omission (أخطاء السهو):** a transaction that is not recorded.
- **Errors of principle (أخطاء فنية):** a transaction that is not in accordance with generally accepted accounting principles (GAAP).
- **Estimated liabilities (المطلوبات التقديرية):** Definite debts or obligations of which the exact amounts cannot be known until a later date.
- **Estimated useful life (الحياة المفيدة التقديرية):** The total number of service units expected from a long-term asset.
- **Ethics (الأخلاق):** A code of conduct that addresses whether even-day actions are right or wrong.
- **Exchange gain or loss (مكاسب أو خسائر أسعار الصرف):** A gain or loss due to exchange rate fluctuation that is reported on the income statement.
- **Exchange rate (معدل سعر الصرف):** The value of one currency in terms of another.
- **Exchange rate (معدل سعر الصرف):** The value of one currency in terms of another.
- **Expenditure (مصروف):** A payment or an obligation to make future payment for an asset or a service.
- **Expenses (مصاريف):** Decreases in stockholders' equity that result from operating a business.
- **Expenses(مصاريف)**: is the outflow of cash or other assets of a business or incurring of Liabilities from delivering or producing goods, rendering services, or its other principal operations.
- **Extraordinary items (عناصر غير عادية أو استثنائية):** Events or transactions that are both unusual in nature and infrequent in occurrence.
- **Extraordinary repairs (تصليحات غير عادية):** Repairs that affect the estimated residual value or estimated useful life of an asset, whereby the carrying value of the asset is increased.

- F -

- **Face interest rate (معدل الفائدة الاسمي):** The rate of interest paid to bondholders based on the face value of the bonds.
- **Factor (وكيل، وسيط تجاري):** An entity that buys accounts receivable.

- **Factoring (مكتب خصم القوائم أو الفواتير):** The selling or transferring of accounts receivable.
- **Financial accounting (المحاسبة المالية):** The process of generating and communicating accounting information in the form of financial statements to those outside the organization.
- **Financial Accounting Standards Board (FASB) (مجلس معايير المحاسبة المالية):** The most important body for developing and issuing rules on accounting practice, called Statements of Financial Accounting Standards.
- **Financial leverage (الرافعة المالية):** The ability to increase earnings for stockholders by earning more on assets than is paid in interest on debt incurred to finance the assets; also called trading on the equity.
- **Financial position (المركز المالي):** The economic resources that belong to a company and the claims (equities) against those resources at a point in time.
- **Financial statement analysis (تحليل القوائم المالية):** All the techniques used to show important relationships among amounts in financial statements.
- **Financial statements (القوائم المالية):** The primary means of communicating important accounting information to users. They include the income statement, statement of retained earnings, balance sheet, and statement of cash flows.
- **Financial Statements (قوائم مالية):** Accounts made up only at the end of a firm's financial year. For a manufacturing firm, the final accounts consist of (1) manufacturing account, (2) trading account, (3) profit and loss account, and (4) profit and loss appropriation account. For a trading firms, the final accounts will include all of the above except the manufacturing account.
- **Financing activities (نشاطات التمويل):** Activities undertaken by management to obtain adequate funds to begin and to continue operating a business.
- **Financing activities (نشاطات التمويل):** Business activities that involve obtaining resources from or returning resources to owners and providing them with a return on their investment, and obtaining resources from creditors and repaying any amounts borrowed or otherwise settling the obligations.
- **First-in, first-out (FIFO) method (طريقة الوارد أولا- صادر أولا):** An inventory costing method based on the assumption that the costs of the first items acquired should be assigned to the first items sold.
- **Fixed Assets** represent assets with a service potential extending beyond one accounting period, fixed assets (real assets) include:
- **Flexibility principle (مبدأ المرونة):** The principle that holds that an accounting system must flexible enough to allow the volume of transactions to grow and organizational changes to be made.

- **FOB destination (التسليم ظهر الباخرة):** A shipping term that means that the seller bears transportation costs to the place of delivery.
- **FOB shipping point (التسليم ظهر الباخرة):** A shipping term that means that the buyer bears transportation costs from the point of origin.
- **Folio (صفحة سجل):** Two pages facing each other are called folio.
- **Footings (مجموع حقل الأرقام):** Working totals of columns of numbers. To foot means to total a column of numbers.
- **Franchise (حق، امتياز، ترخيص):** The right or license to an exclusive territory or market.
- **Fraudulent financial reporting (تقرير مالي مخادع):** The intentional preparation of misleading financial statements.
- **Free cash flow (تدفق نقدي حر):** Net cash flows from operating activities minus dividends minus net capital expenditures. Used to measure cash generated after providing for commitments.
- **Free cash flow (تدفق نقدي حر):** The amount of cash that remains after deducting the funds a company must commit to continue operating at its planned level; net cash flows from operating activities minus dividends paid minus net capital expenditures.
- **Freight in (شحن للداخل):** Transportation charges on merchandise purchased for resale. Also called transportation in.
- **Freight out Expense (مصروف شحن للخارج):** The account that accumulates transportation charges on merchandise sold, which are shown as a selling expense. Also called Delivery Expense.
- **Freight out expense (مصروف شحن للخارج):** The cost to the seller of shipping sold goods to the customer. Also called delivery expense.
- **Full disclosure (إفصاح تام):** The convention requiring that a company's financial statements and their notes present all information relevant to the users' understanding of the statements.
- **Full-costing (كلفة إجمالية):** A method of accounting for the costs of exploration and development of oil and gas resources in which all costs are recorded as assets and depleted over the estimated life of the producing resources.
- **Functional currency (عملة وظيفية):** The currency of the place where a subsidiary carries on most of its business.
- **Future value (قيمة مستقبلية):** The amount that an investment will be worth at a future date if invested at compound interest.

- G -

- **General journal (سجل يومية عامة):** The simplest and most flexible type of journal.

- **General ledger (سجل أستاذ عام):** The book or file that contains all of the company's accounts, arranged in the order of the chart of accounts. Also called ledger.
- **Generally accepted accounting principles (GAAP) (المبادئ المقبولة قبولا عاما):** The conventions, rules, and procedures that define accepted accounting practice at a particular time.
- **Goods (بضاعة):** The things which a trader buys and sells are called goods. A Furniture dealer deals in Furniture. A clock dealer deals in clock. Therefore, all articles, Furniture, clock, paper, pencil or pens are goods when purchased for the purpose of re-selling.
- **Goods available for sale (بضاعة متاحة للبيع):** The sum of beginning inventory and the net cost of purchases during the period; the total goods available for sale to customers during an accounting period.
- **Goods flow (تدفق البضاعة):** The actual physical movement of goods in the operations of a company.
- **Goodwill (goodwill from consolidation):** The amount paid for a subsidiary that exceeds the fair value of the subsidiary's assets less its liabilities.
- **Goodwill (شهرة محل):** The excess of the cost of a group of assets (usually a business) over the fair market value of the net assets if purchased individually.
- **Governmental Accounting Standards Board (GASB) (مجلس معايير المحاسبة الحكومية):** The board responsible for issuing accounting standards for state and local governments.
- **Graphical user interface (GUI) (جهاز توصيل استخدام الرسم البياني):** The employment of symbols, called icons, to represent common operations, making software easier to use.
- **Gross margin (هامش إجمالي):** The difference between net sales and cost of goods sold. Also called gross profit.
- **Gross profit (مجمل ربح):** The excess of the selling price over the cost of goods sold.
- **Gross profit method (طريقة إجمالي الربح)** A method of inventory estimation based on the assumption that the ratio of gross margin for a business remains relatively stable from year to year.
- **Gross sales (مبيعات إجمالية):** Total sales for cash and on credit occurring during an accounting period.
- **Group depreciation (اندثار مجموعة):** The grouping of similar items to calculate depreciation.
- **Group depreciation method (طريقة اندثار المجموعة):** Group depreciation method is used for depreciating multiple-asset accounts using straight-line-depreciation method.

- **H** -

- **Hardware (مشغل حاسوب):** The equipment needed to operate a computer system.
- **Held-to-maturity securities (أوراق مالية محتفظ بها لتاريخ استحقاقها):** Debt securities that management intends to hold to their maturity or payment date and whose cash value is not needed until that date.
- **Held-to-maturity securities (أوراق مالية محتفظ بها لتاريخ استحقاقها):** Investments in debt securities that a company expects to hold until their maturity date.
- **Horizontal analysis (تحليل أفقي):** A technique for analyzing financial statements that involves the computation of changes in both dinar amounts and percentages from the previous to the current year.

- **I** -

- **Icons (أيقونات، رموز):** Symbols representing common operations that appear on the screen of a graphical user interface.
- **Imprest system (نظام السلف المستديمة):** A system for controlling small cash disbursements by establishing a fund at a fixed amount and periodically reimbursing the fund by the amount necessary to restore its original cash balance.
- **Income before income taxes (الدخل قبل الضريبة):** The amount the company has earned from all activities (operating and non-operating) before taking into account the amount of income taxes the company incurred.
- **Income from operations (الدخل قبل العمليات):** Gross margin less operating expenses. Also called operating income.
- **Income statement (كشف الدخل):** The financial statement that summarizes the revenues earned and expenses incurred by a business over a period of time.
- **Income Statement (قائمة الدخل):** This is a summary of a business's revenue and expenses for a specific period of time.
- **Income Summary (ملخص الدخل):** A temporary account used during the closing process that holds a summary of all revenues and expenses before the net income or loss is transferred to the Retained Earnings account.
- **Income tax allocation (مخصص ضريبة دخل):** An accounting method used to accrue income taxes expense on the basis of accounting income whenever there are differences between accounting and taxable income.
- **Income taxes (ضرائب دخل):** Represent the expense for federal, state, and local taxes on corporate income; the Income Taxes account appears only on income statements of corporations. Also called provision for income taxes.
- **Independence (استقلال):** The avoidance of all relationships that impair or appear to impair an accountant's objectivity.

- **Index number (الرقم القياسي):** In trend analysis, a number from which changes in related items over a period of time are measured. Calculated by setting the base year equal to 100 percent.
- **Indirect method (الطريقة المباشرة):** The procedure for converting the income statement from an accrual basis to a cash basis by adjusting net income for items that do not affect cash flows, including depreciation, amortization, depletion, gains, losses, and changes in current assets and current liabilities.
- **Information and communication (بيانات واتصال):** The accounting system established by management and the communication of responsibilities with, regard to the accounting system.
- **Information retrieval (تحميل بيانات):** The downloading of files from the Internet to a computer.
- **Initial public offering (IPO)(عرض عام أولي):** Common stock issue of a company that is selling its stock to the public for the first time.
- **Insider trading (تجارة المطلع):** The practice of buying or selling shares of a publicly held company based on information that has not yet been made available to the public.
- **Insolvent (عجز عن الدفع):** If a trader's liability is in excess of his assets, he is said to be an insolvent.
- **Installment accounts receivable (حسابات مدينة مقسطة):** Accounts receivable that are payable in a series of time payments.
- **Installment note payable (أوراق دفع مقسطة):** A long-term note paid off in a series of payments, of which part is interest and part is repayment of principal.
- **Institute of Management Accountants (IMA) (معهد المحاسبين الإداريين):** A professional organization made up primarily of management accountants
- **Intangible assets (أصول وهمية او غير ملموسة):** Long-term assets that have no physical substance but have a value based on the rights or privileges that belong to their owner.
- **Intangible Assets(أصول غير ملموسة)** are those assets that do not have a physical existence, such as patents, trademarks, good will, copyright etc.
- **Integrity (سلامة، استقامة):** Honesty, candidness, and the subordination of personal gain to service and the public trust.
- **Interest (فائدة):** The cost associated with the use of money for a specific period of time.
- **Interest (فائدة):** The cost of borrowing money or the return for lending money, depending on whether one is the borrower or the lender.

- **Interest coverage ratio (نسبة تغطية الفائدة):** A measure of the degree of protection a company has from default on interest payments; income before taxes and interest expense divided by interest expense.
- **Interest coverage ratio (نسبة تغطية الفائدة):** Income before income taxes plus interest expense divided by interest expense. Used as a measure of the degree of protection creditors have from a default on interest payments.
- **Interim financial statements (قوائم مالية وقتية)**: Financial statements issued for a period of less than one year, usually a quarter or a month.
- **Internal control (رقابة داخلية):** All the policies and procedures a company uses to ensure the reliability of financial reporting, compliance with laws and regulations, and the effectiveness and efficiency of operations.
- **International Accounting Standards Committee (IASC) (لجنة المعايير المحاسبية الدولية)**: The organization that encourages worldwide cooperation in the development of accounting principles, it has approved more than 40.international standards of accounting.
- **Internet (شبكة الانترنيت):** The world's largest computer network; it allows communication among computers of individuals and organizations around the world.
- **Inventory cost (كلفة المخزون):** The price paid or consideration given to acquire an asset; includes invoice price less purchases discounts, plus freight or transportation in, and plus applicable taxes and tariffs.
- **Inventory systems (أنظمة الجرد)**: The physical quantity of ending inventory goods is determined by using either a periodic or a perpetual inventory method.
- **Inventory turnover (دوران المخزون)**: A ratio indicating the number of times a company's average inventory' is sold during an accounting period; cost of goods sold divided by average inventory.
- **Inventory turnover (دوران المخزون):** The cost of goods sold divided by average inventory. Used to measure the relative size of inventory.
- **Investing activities (أنشطة استثمارية):** Activities undertaken by management to spend capital in ways that are productive and will help a business achieve its objectives.
- **Investing activities (أنشطة استثمارية):** Business activities that involve the acquiring and selling of long-term assets, the acquiring and selling of marketable securities other than trading securities or cash equivalents, and the making and collecting of loans.
- **Investments (استثمارات):** Assets, usually long-term assets that are not used in the normal operation of a business and that management does not intend to convert to cash within the next year.
- **Invoice (فاتورة):** A form sent to the purchaser by the vendor that describes the quantity and price of the goods or services delivered and the terms of payment.

- **Issued stock (أسهم مصدرة):** The shares of stock sold or otherwise transferred to stockholders.
- **Item-by-item method (طريقة الكلفة أو السوق أيهما اقل):** A lower-of-cost-or-market method of valuing inventory in which cost and market values are compared for each item in inventory, with each item then valued at its lower price.

- J -

- **Journal (سجل اليومية):** A chronological record of all transactions; the place where transactions first enter the accounting records. Also called book of original entry.
- **Journal (سجل يومية):** Journal is a book in which the very first record of any business transaction is made.
- **Journal entry (قيد يومية):** The notations in the journal that are used to record a single transaction.
- **Journal entry (قيد يومية):** What we write in the journal is called journal entry.
- **Journal form (شكل سجل اليومية):** A form of journal in which the date, the debit account, and the debit amount of a transaction are recorded on one line and the credit account and credit amount on the next line.
- **Journal Proper (سجل يومية خاص):** EVEN IF ALL THE BOOKS ARE MAINTAINED, WE CANNOT DISPENSE WITH THE MAINTAINED TO RECORD: OPENING ENTRIES, TRANSFER ENTRIES, CLOSING ENTRIES, ENTRIES TO RECTIFY ERRORS.
- **Journalisation (التسجيل في سجل اليومية):** Entering the business transaction in the journal is called journalizing.
- **Journalizing (التسجيل في سجل اليومية):** The process of recording transactions in a journal.
- **Just-in-time operating environment (البيئة التشغيلية في الوقت المطلوب):** An inventory management system in which companies seek to reduce their levels of inventory by working closely with suppliers to coordinate and schedule deliveries so that goods arrive just at the time they are needed.

- L -

- **Last-in, First-out (LIFO) method (طريقة ما يرد أخيرا يخرج أولا):** An inventory costing method based on the assumption that the costs of the last items purchased should be assigned to the first items sold.
- **Leasehold (مستأجر):** A right to occupy land or buildings under a long-term rental contract.
- **Leasehold improvements (تحسينات المستأجر):** Improvements to leased property that become the property of the lessor at the end of the lease.

- **Ledger account form (شكل حساب الأستاذ):** The form of account that has four Dinar amount columns: one column for debit entries, one column for credit entries, and two columns (debit and credit) for showing the balance of the account.
- **Ledger (سجل الأستاذ):** It is a book which records all the transactions from the Journal into a classified form.
- **Legal capital (رأس مال قانوني):** The number of shares of stock issued times the par value; the minimum amount that can be reported as contributed capital.
- **Liabilities ((مطلوبات أو خصوم:** Present obligations of a business to pay cash, transfer assets, or provide services to other entities in the future.
- **Liabilities (خصوم):** Capital of the proprietor and debts which are due by the business are known as Liabilities.
- **Liabilities (مطلوبات أو خصوم):** Legal obligations for the future payment of assets or the future performance of services that result from past transactions.
- **License (إجازة، ترخيص):** The right to use a formula, technique, process, or design.
- **LIFO liquidation (تصفية بطريقة ما يرد أخيرا يخرج أولا):** The reduction of inventory below previous levels so that income is increased by the amount by which current prices exceed the historical cost of the inventory under LIFO.
- **Liquidity (سيولة)**: Having enough cash available to pay debts when they are due.
- **Liquidity (سيولة):** Having enough money on hand to pay bills when they are due and to take care of unexpected needs for cash.
- **Local area networks (LANs) (شبكة منطقة محلية):** Networks of two or more computers in one location.
- **Long-term assets (أصول طويلة الأجل):** Assets that (1) have a useful life of more than one year, (2) are acquired for use in the operation of a business, and (3) are not intended for resale to customers; less commonly called fixed assets.
- **Long-term liabilities (التزامات طويلة الأجل):** Debts or obligations due beyond one year or beyond the normal operating cycle.
- **Long-term liabilities (خصوم طويلة الأجل):** Debts that fall due more than one year in the future or beyond the normal operating cycle; debts to be paid out of noncurrent assets.
- **Loss (خسارة):** The amount by which capital decreases is called loss.
- **Lower-of-cost-or-market (LCM) rule (قاعدة الكلفة أو سعر السوق أيهما اقل):** A method of valuing inventory at an amount below cost if the replacement (market) value is less than cost.

- M -

- **Major category method (طريقة الفئة الأهم):** A lower-of-cost-or-market method of valuing inventory-in which the total cost and total market values for each category of items are compared, with each category then valued at its lower amount.
- **Management (إدارة):** Collectively, the people who have overall responsibility for operating a business and meeting its goals.
- **Management accounting (محاسبة إدارية):** The process of producing accounting information for the internal use of a company's management.
- **Management information system (MIS) (نظام المعلومات الإدارية):** The interconnected subsystems that provide the information needed to run a business.
- **Manufacturing companies (شركات صناعية):** Companies that make and sell products.
- **Market (السوق):** Current replacement cost of inventory.
- **Market interest rate (معدل فائدة السوق):** The rate of interest paid in the market on bonds of similar risk; also called effective interest rate.
- **Marketable securities (أسهم قابلة للتسويق):** Short-term investments intended to be held until needed to pay current obligations. Also called short-term investments.
- **Materiality (الأهمية النسبية):** The convention that refers to the relative importance of an item or event in a financial statement and its influence on the decisions of the users of financial statements.
- **Maturity date (تاريخ الاستحقاق):** The date on which a promissory note must be paid.
- **Maturity value (قيمة الاستحقاق):** The total proceeds of a promissory note, including principal and interest, at the maturity date.
- **Merchandise inventory (مخزون بضاعة):** All goods owned and held for sale in the regular course of business.
- **Merchandising business (منشأة تجارية):** A business that earns income by buying and selling products or merchandise.
- **Merchandising companies (شركات تجارية)** Companies that buy and sell products. Includes wholesalers and retailers.
- **Minority interest (مصلحة الأقلية):** The amount recorded on a consolidated balance sheet that represents the holdings of stockholders who own less than 50 percent of the voting stock of a subsidiary.
- **Money measure (قياس نقدي):** The recording of all business transactions in terms of money.
- **Monitoring (مراقب)**: Management's regular assessment of the quality of internal control.

- **Mortgage (رهن):** A long-term debt secured by real property; usually paid in equal monthly installments, of which part is interest and part is repayment of principal.
- **Multinational (transnational) corporations (شركات متعددة الجنسيات):** Companies that operate in more than one country.
- **Multistep income statement (كشف دخل متعدد الخطوات):** A form of income statement that arrives at income before income taxes in steps. Also called multistep form.

- N -

- **Narration (شرح القيد):** Narration is a brief explanation which is added after each journal entry.
- **Natural resources (الموارد الطبيعية):** Long-term assets purchased for the economic value that can be taken from the land and used up rather than for the value associated with the land's location.
- **Net assets (صافي الأصول):** Assets minus liabilities; owners' equity or stockholders' equity.
- **Net cost of purchases (صافي كلفة المشتريات):** Net purchases plus any freight charges on the purchases.
- **Net income (صافي الدخل):** On the income statement, what remains of the gross margin after operating expenses are deducted, other revenues and expenses are added or deducted, and income taxes are deducted. Referred to as the bottom line.
- **Net income (صافي الدخل):** The difference between revenues and expenses when revenues exceed expenses.
- **Net income (صافي الدخل):** The net increase in stockholders' equity that results from business operations and is accumulated in the Retained Earnings account; revenues less expenses when revenues exceed expenses.
- **Net loss (صافي خسارة):** The difference between expenses and revenues when expenses exceed revenues.
- **Net loss (صافي خسارة):** The net decrease in stockholders' equity that results from business operations when expenses exceed revenues. It is accumulated in the Retained Earnings, account.
- **Net of taxes (صافي الضرائب):** Taking into account the effect of applicable taxes (usually income taxes) on an item in order to determine the overall effect of the item on the income statement.
- **Net profit (صافي الربح):** Net profit is the remaining amount after meeting all business expenses against revenue.
- **Net purchases (صافي المشتريات):** Total purchases less any deductions, such as purchases returns and allowances and purchases discounts.

- **Net sales (صافي المبيعات):** The gross proceeds from sales of merchandise, or gross sales, less sales returns and allowances and any discounts allowed.
- **Network (شبكة اتصال):** The linking of two or more microcomputers to enable them to communicate with one another.
- **Noncash investing and financing transactions (عمليات تمويلية واستثمارية غير نقدية):** Significant investing and financing transactions that do not involve an actual cash inflow or outflow but involve only long-term assets, long-term liabilities, or stockholders' equity, such as the exchange of a long-term asset for a long-term liability or the settlement of a debt by issuing capital stock.
- **No-par stock (أسهم بدون قيمة اسمية):** Capital stock that does not have a par value.
- **Normal balance (رصيد عادي):** The usual balance of an account; also the side (debit or credit) that increases the account.
- **Notes payable (أوراق دفع):** Collective term for promissory notes owed by the entity (maker) who promises payment to other entities.
- **Notes receivable (أوراق قبض):** Collective term for promissory notes held by the entity to which payment is promised) payee).

- O -

- **Objectivity (موضوعية):** Impartiality and intellectual honesty.
- **Obsolescence (تقادم):** The process of becoming out of date; a contributor, with physical deterioration, to the limited useful life of tangible assets.
- **Operating activities (أنشطة تشغيلية):** Activities undertaken by management in the course of running the business.
- **Operating activities (أنشطة تشغيلية):** Business activities that involve the cash effects of transactions and other events that enter into the determination of net income.
- **Operating budget (موازنة تشغيلية):** Management's operating plans as reflected by detailed listings of projected selling and general and administrative expenses.
- **Operating cycle (دورة تشغيلية):** A series of transactions that includes purchases of merchandise inventory for cash or on credit, payment for purchases made on credit, sales of merchandise inventory for cash or on credit, and collection of cash from the sales.
- **Operating cycle (دورة تشغيلية):** The time it takes to sell products and collect for them; average days' inventory on hand plus average days' sales uncollected.
- **Operating expenses (مصاريف تشغيلية):** The expenses other than cost of goods sold that are incurred in running a business.
- **Operating lease (تأجير تشغيلي):** A short-term or cancelable lease in which the risks of ownership lie with the lessor, and whose payments are recorded as a rent expense.

- **Ordinary annuity (قسط اعتيادي):** A series of equal payments made at the end of equal intervals of time, with compound interest on the payments.
- **Ordinary repairs (تصليح عادي):** Expenditures, usually of a recurring nature, that are recorded as current period expenses. They are necessary to maintain an asset in good operating condition in order to attain its originally intended useful life.
- **Other assets (أصول أخرى)** A balance sheet category that may include various types of assets other than current assets and property, plant, and equipment.
- **Other Current Liabilities** Depending on the company, you will see various other current liabilities listed. If a business lists **"Commercial Paper**" or "Bonds Payable" as a current liability, you can be fairly confident the amount listed is what will be paid out to the company's bond holders in the short term.
- **Other revenues and expenses (مصاريف وإيرادات أخرى):** The section of a multistep income statement that includes no operating revenues and expenses.
- **Outstanding stock (أسهم مستحقة)**: Stock that has been issued and is still in circulation.
- **Owners' equity (حقوق ملكية):** The residual interest in the assets of a business entity that remains after deducting the entity's liabilities. Also called residual equity or, for corporations, stockholders' equity.

- P -

- **Par value (قيمة اسمية):** An arbitrary amount assigned to each share of stock; used to determine the legal capital of a corporation.
- **Parent company (شركة أم):** An investing company that owns a controlling interest in another company.
- **Partnership (شركة تضامن):** A business owned by two or more people that is not incorporated.
- **Patent (براءة اختراع):** An exclusive right granted by the federal government for a period of 17 years to make a particular product or use a specific process.
- **Payables turnover (عدد مرات وجوب الدفع):** Cost of goods sold plus or minus change in inventory divided by average accounts payable. Used to measure relative size of accounts payable.
- **Payables turnover (عدد مرات وجوب الدفع):** Number of times on average that accounts payable are paid in an accounting period; cost of goods sold plus (or minus) change in merchandise inventory divided by average accounts payable.
- **Pension fund (معاش تقاعد):** A fund established through contributions from an employer (and, sometimes, employees) from which payments are made to employees after retirement or on disability or death.
- **Pension plan (خطة تقاعد):** A contract between a company and its employees under which the company agrees to pay benefits to the employees after they retire.

- **Percentage of net sales method (طريقة نسبة صافي المبيعات):** A method of estimating uncollectible accounts based on the assumption that a predictable proportion of each dinar of sales will not be collected.
- **Performance measures (قياسات النتيجة):** Indicators of whether managers are achieving business' goals and whether the business activities are well managed.
- **Periodic inventory system** (**نظام الجرد الدوري**): A system for determining inventory on hand by a physical count at the end of an accounting period.
- **Periodic inventory System** (**نظام الجرد الدوري**): This system requires a physical count of goods on hand at the end of the period. This system is widely used because it is simple and requires records and computations primarily only at the end of the period..
- **Periodicity (الدورية):** The recognition that net income for any period less than the life of the business, although tentative, is still a useful measure.
- **Permanent accounts (الحسابات الدائمية):** Balance sheet accounts; accounts whose balances can extend past the end of an accounting period. Also called real accounts.
- **Perpetual inventory system (نظام الجرد المفاجئ):** A system for determining inventory on hand by keeping continuous records of the quantity and, usually, the cost of individual items as they are bought and sold.
- **Perpetual inventory System نظام الجرد المفاجئ ()):** This system calls for a continuous record of receipt and disbursement for every item of inventory. Physical counts of the quantities on hand are usually made at least once a year and reconciled to the perpetual records.
- **Physical deterioration (تلف مادي):** Limitations on the useful life of a depreciable asset resulting from use and from exposure to the elements.
- **Physical inventory (جرد مادي):** An actual count of all merchandise on hand at the end of an accounting period.
- **Portfolio (محفظة):** A group of loans or investments designed to average the returns and risks of a creditor or investor.
- **Post-closing trial balance (ميزان مراجعة معدل):** A trial balance prepared at the end of the accounting period after all adjusting and closing entries have been posted; a final check on the balance of the ledger to ensure that all temporary accounts have zero balances and that total debits equal total credits.
- **Posting (الترحيل):** The process of transferring the entries from the journal to the ledger is called posting.
- **Posting (ترحيل):** The process of transferring journal entry information from the journal to the ledger.

- **Preferred stock (أسهم ممتازة):** Stock that has preference over common stock, usually in terms of dividends and the distribution of assets.
- **Premium (علاوة، قسط):** The amount by which the issue price of a bond exceeds its face value; occurs when the market interest rate is lower than the face interest rate.
- **Prepaid expenses (مصاريف مدفوعة مقدما)**: Expenses paid in advance that have not yet expired; an asset account.
- **Prepaid Expenses (مصاريف مدفوعة مقدما)**:: The costs of services that have been paid for a expense but not used at the end of the accounting period.
- **Present value (قيمة حالية):** The amount that must be invested now at a given rate of interest to produce a given future value.
- **Price/earnings (P/E) ratio (نسبة السعر/العائد):** A measure of confidence in a company's future; market price per share divided by earnings per share.
- **Price/earnings (P/E) ratio (نسبة السعر/العائد):** Market price per share divided by earnings per share. Used as a measure of investor confidence in a company and as a means of comparing values among stocks.
- **Production method (طريقة الإنتاج):** A method of depreciation that assumes that depreciation is solely the result of use and that the passage of time plays no role in the depreciation process; it allocates depreciation based on the units of output or use during each period of an asset's useful life.
- **Professional ethics (أخلاق مهنية):** A code of conduct that applies to the practice of a profession.
- **Profit (الربح):** The amount by which capital increases is called profit.
- **Profit (ربح):** The increase in stockholders' equity that results from business operations.
- **Profit and Loss Account (حساب الأرباح والخسائر)**: Profit and loss account is the account whereby a business determines the net result of his financial transactions. It is the account which reveals the net profit (or net loss) of the business.
- **Profit margin (هامش الربح):** A measure of profitability that shows the percentage of each sales Dinar that results in net income; net income divided by net sales.
- **Profit margin (هامش الربح):** Net income divided by net sales. Used to measure the percentage of each revenue dinar that contributes to net income.
- **Profitability (ربحية):** The ability of a business to earn a satisfactory income.
- **Profitability (ربحية):** The ability to earn enough income to attract and hold investment capital.

- **Profitability management (إدارة ربحية):** The process of achieving a satisfactory gross margin, by setting appropriate prices for merchandise and purchasing merchandise at favorable prices and terms, and maintaining acceptable levels of operating expenses.
- **Program (برنامج):** A set of instructions and steps that bring about a desired result in a computer system.
- **Programmer (مبرمج):** A person who writes instructions for a computer.
- **Promissory note (ورقة تجارية، كمبيالة):** An unconditional promise to pay a definite sum of money on demand or at a future date.
- **Promissory note** is a written promise to pay a sum of money to a specific person at a particular time in the future.
- **Property, plant, and equipment (ملكية، تأسيسات، معدات):** Tangible long-term assets used in the continuing operation of a business. Also called operating assets, fixed assets, tangible assets, long-lived assets, or plant assets.
- **Proprietor (ملكية):** A proprietor is a person who introduces capital with the aim of earning profit.
- **Purchase method (طريقة الشراء):** A method of accounting for parent-subsidiary relationships in which similar accounts from separate statements are combined. Used when the investing company owns more than 50 percent of a subsidiary.
- **Purchase order (أمر الشراء):** A form prepared by a company's purchasing department and sent to a vendor; it describes the items ordered; their expected price, terms, and shipping date; and other shipping instructions.
- **Purchase requisition (طلب الشراء):** A formal written request for a purchase prepared by the requesting department in an organization and sent to the purchasing department.
- **Purchases Returns and Allowances (مردودات المشتريات والمسموحات)**: Represent a reduction in the cost of goods purchased for resale. It is a contra account to Purchases and its normal balance is a credit.
- **Purchases (مشتريات):** A temporary account used under the periodic inventory system to accumulate the total cost of all merchandise purchased for resale during an accounting period.
- **Purchases Book (سجل المشتريات):** All credit purchase of goods is written in this book. Cash purchase of goods and credit purchase of assets are not recorded in this book. Other names of purchase book are purchase day book, purchase journal, bought journal, inward invoice book etc.
- **Purchases discounts (خصم المشتريات):** Discounts taken for prompt payment for merchandise purchased for resale; the Purchases Discounts account is a contra-purchases account.

- **Purchases Returns and Allowances (مردودات المشتريات والسماحات):** A contra-purchases account used under the periodic inventory system to accumulate cash refunds, credits on account, and other allowances made by suppliers on merchandise originally purchased for resale.
- **Purchases Returns Book** (سجل مردودات المشتريات) **IS USED FOR RECORDING** the value of **GOODS RETURNED TO THE SUPPLIERS.**

- Q -

- **Qualitative characteristics (الخصائص النوعية):** Standards for judging the information that accountant give to decision makers.
- **Quality of earnings (نوعية الأرباح):** The substance of earnings and their sustainability into future accounting periods.
- **Quantity Discounts(خصم الكمية)**: Sellers use the quantity discount to encourage buyers to buy more. This in turn can help the seller to reduce their own production costs, which can help reduce prices for the buyers. Examples of quantity discounts include "buy five for the price of four" and "buy one get one free" deals.
- **Quick ratio (نسبة السيولة السريعة):** A ratio for measuring the adequacy of short-term liquid assets; short-term liquid assets divided by current liabilities.
- **Quick ratio (نسبة السيولة السريعة):** The more liquid current assets (cash, marketable securities or short-term investments, and receivables) divided by current liabilities. Used as a measure of short-term debt-paying ability.

- R -

- **Ratio analysis (تحليل النسب):** A technique of financial analysis in which meaningful relationships are shown between the components of the financial statements.
- **Receivable turnover (دوران الذمم):** A ratio for measuring the average number of times receivables were turned into cash during an accounting period; net sales divided by average net accounts receivable.
- **Receivable turnover (دوران الذمم):** Net sales divided by average accounts receivable. Used as a measure of the relative size-of a company's accounts receivable and the success of its credit and collection policies; shows how many times, on average, receivables were turned into cash during the period.
- **Receiving report (تقرير الاستلام):** A form prepared by the receiving department of a company; describes the quantity and condition of goods received.
- **Recognition (الاعتراف):** The determination of when a business transaction should be recorded.
- **Recognition point (نقطة الاعتراف):** The predetermined time at which a transaction should be recorded; usually, the point at which title passes to the buyer.

- **Registered bonds (سندات مسجلة):** Bonds for which the names and addresses of bondholders are recorded with the issuing organization.
- **Relevance (الملاءمة):** The qualitative characteristic of information bearing directly on the outcome (حصيلة) of a decision.
- **Reliability (المعولية):** The qualitative characteristic of information being representationally faithful, verifiable, and neutral.
- **Reporting currency (عملة التقرير):** The currency in which consolidated financial statements are presented.
- **Residual equity (أسهم عادية):** The common stock of a corporation.
- **Residual value (قيمة متبقية):** The estimated net scrap, salvage, or trade-in value of a tangible asset at the estimated date of disposal; also called salvage value or disposal value.
- **Restriction on retained earnings (تقييد على الأرباح المحتجزة):** The required or voluntary identification of a portion of retained earnings that cannot be used to declare dividends.
- **Retail method (طريقة التجزئة):** A method of inventory estimation, used in retail merchandising businesses, under which inventory at retail value is reduced by the ratio of cost to retail price.
- **Retained earnings (الأرباح المحتجزة):** Stockholders' claims to assets arising from the earnings of the business; the accumulated earnings of a corporation from its inception, minus any losses, dividends, or transfers to contributed capital.
- **Retained earnings (الأرباح المحتجزة):** The equity of the stockholders generated from the income-producing activities of the business and kept for use in the business.
- **Return on assets (العائد على الأصول):** A measure of profitability that shows how efficiently a company uses its assets to produce income; net income divided by average total assets.
- **Return on assets (العائد على الأصول):** Net income divided by average total assets. Used to measure the amount earned on each dinar of assets invested. A measure of overall earning power, or profitability.
- **Return on equity (العائد على حقوق الملكية):** A measure of management performance; net income divided by average stockholders' equity.
- **Return on equity (العائد على حقوق الملكية:** A measure of profitability that relates the amount earned by a business to the stockholders' investment in the business; net income divided by average stockholders' equity.
- **Return on equity (العائد على حقوق الملكية:** Net income divided by average stockholders' equity. Used to measure how much income was earned on each dinar invested by stockholders.

- **Revenue expenditure (مصاريف إيراديه):** Expenditure for repairs, maintenance, or other services needed to maintain or operate a plant asset, recorded by a debit to an expense account.
- **Revenue Expenditure**: An expenditure for ordinary repairs, fuel and use in one financial year.
- **Revenue recognition (الاعتراف بالإيراد):** In accrual accounting, the process of determining when revenue is earned.
- **Revenues (الايرادات):** Increases in stockholders' equity resulting from selling goods, rendering services, or performing other business activities.
- **Revenues (الايرادات):** Increases in stockholders' equity that result from operating a business.
- **Revenues (الايرادات):** is the inflow of cash or other assets of a business from delivering or producing goods, rendering services, or its other principal operations.
- **Reversing entry (قيد افتتاحي):** A journal entry dated on the first day of a new accounting period that is the exact opposite of an adjusting entry made on the last day of the prior accounting period.

- S -

- **Salaries (رواتب):** Compensation to employees who are paid at a monthly or yearly rate.
- **Sales Allowances (مسموحات المبيعات)** Are reductions in price given to the customer because the merchandise does not meet the specifications ordered by the customer, but the customer is willing to purchase the merchandise.
- **Sales Book (سجل المبيعات):** All sales of goods are written in this book. Cash sale of goods and credit sale of assets are not recorded in this book. Other names of Sales Book are Sales Day Book, Sales Journal, Sold book, Outward Invoice Book etc.
- **Sales discount (خصم المبيعات):** A discount given to a buyer for early payment of a sale made on credit; the Sales Discounts account is a contra-revenue account.
- **Sales Returns and Allowances (مردودات المبيعات والسماحات):** A contra-revenue account used to accumulate cash refunds, credits on account, and other allowances made to customers who have received defective or otherwise unsatisfactory products.
- Sales Returns Book (سجل مردودات المبيعات) **IS USED FOR RECORDING GOODS RETURNED BY THE CUSTOMERS.**. This return is called Sales Returns Inwards.
- **Sales Returns (مردودات المبيعات)**: Are items purchased by customers, and then returned because they don't meet the specifications ordered by the customer; or they arrived late; or the customer received the wrong merchandise.
- **Secured bonds (سندات مضمونة):** Bonds that give the bondholders a pledge of certain assets as a guarantee of repayment.

- **Segments (تجزئة، تقطيع):** Distinct parts of business operations, such as lines of business or classes of customer.
- **Separate entity (وحدة مستقلة):** A business that is treated as distinct from its creditors, customers, and owners.
- **Serial bonds (سندات متسلسلة):** A bond issue with several different maturity dates.
- **Share of stock (سهم عادي):** A unit of ownership in a corporation.
- **Short Term and Current Debts (ديون متداولة وقصيرة الأجل):** These current liabilities are sometimes referred to as notes payable. They are the most important item under current liabilities section of the balance sheet and most of the time; they represent the payments on a company's bank loans that are due in the next twelve months.
- **Short-term investments (استثمارات قصيرة الأجل):** Temporary investments of excess cash, intended to be held until needed to pay current obligations. Also called marketable securities.
- **Short-term liquid assets (أصول سائلة قصيرة الأجل):** Financial assets that arise from cash transactions, the investment of cash, and the extension of credit.
- **Significant influence (تأثير هام):** The ability of an investing company to affect the operating and financial policies of another company, even though the investor holds 50 percent or less of the voting stock.
- **Simple capital structure(هيكل رأس مال بسيط):** A capital structure in which there are no stocks, bonds,
- **Simple interest (فائدة بسيطة):** The interest cost for one or more periods if we assume that the amount on which the interest is computed stays the same from period to period.
- **Single-step income statement (كشف الدخل ذو الخطوة الواحدة):** A form of income statement that arrives at income before income taxes in a single step. Also called single-step form.
- **Software (برمجيات سوفت وير):** The programs in a computer system.
- **Sole proprietorship (شركة فردية):** A business owned by one person that is not incorporated.
- **Solvent (عدم القدرة على الدفع): A person who is not able to pay his past and present debts fully from his business and personal property is known as solvent.**
- **Source document (مستند المنشأ):** An invoice, check, receipt, or other document that supports a transaction.
- **Source documents (مستندات الإثبات الأصلي):** The written evidence that supports each accounting transaction for each major accounting function.

- **Specific identification method (طريقة التمييز الخاص):** An inventory costing method in which the price of inventory is computed by identifying the cost of each item in ending inventory as coming from a specific purchase.
- **Stated value (القيمة المصرح بها):** A value assigned by the board of directors of a corporation to no-par stock.
- **Statement of cash flows (قائمة التدفق النقدي):** A primary financial statement that shows how a company's operating, investing, and financing activities have affected cash during an accounting period.
- **Statement of cash flows (قائمة التدفق النقدي):** The financial statement that shows the inflows and outflows of cash from operating activities, investing activities, and financing activities over a period of time.
- **Statement of retained earnings (قائمة الأرباح المحتجزة):** The financial statement that shows the changes in retained earnings over a period of time.
- **Statement of stockholders' equity (قائمة حقوق الملكية):** A financial statement that summarizes changes in the components of the stockholders' equity section of the balance sheet; also called statement of changes in stockholders' equity.
- **Stock certificate (شهادة الأسهم):** A document issued to a stockholder indicating the number of shares of stock the stockholder owns.
- **Stock dividend (حصة السهم):** A proportional distribution of shares of a corporation's stock to its stockholders.
- **Stock option plan (نظام اختيار السهم):** An agreement to issue stock to employees according to specified terms.
- **Stock split (تقسيم السهم):** An increase in the number of outstanding shares of stock accompanied by a proportionate reduction in the par or stated value.
- **Stockholders' equity (حقوق المساهمين):** The owners' equity of a corporation, consisting of contributes capital and retained earnings.
- **Straight-line depreciation(الاندثار الثابت):** is the simplest and most-often-used technique, in which the company estimates the salvage value of the asset at the end of the period during which it will be used to generate revenues (useful life) and will expense a portion of **original cost** in equal increments over that period.
- **Straight-line method (طريقة القسط الثابت)**: A method of amortizing bond discounts or premiums that allocates the discount or premium equally over each interest period of the life of a bond.
- **Straight-line method (طريقة القسط الثابت):** A method of depreciation that assumes that depreciation depends only on the passage of time and that allocates an equal amount of depreciation to each accounting period in an asset's useful life.

- **Subsidiary (شركة تابعة أو فرعية):** An investee company in which a controlling interest is owned by another company.
- **Subsidiary books** (سجلات مساعدة): are books of original entry as all transactions are first recorded in these books before they are recorded in respective accounts in ledger. These special journals are called subsidiary books. Because they are subsidiary to the principal or main books namely ledger.
- **Sum-of-years' digits method (طريقة مجموع أرقام السنين):** Sum-of-years' digits is a depreciation method that results in a more accelerated write-off than straight line, but less than declining-balance method.
- **Suspense account** (حساب معلق):-is an account when the trial balance is shown different between debit and credit balance that time the suspense account will use temporarily for equal debit and credit balance for closing the financial accounts.
- **Systems analyst (محلل نظم):** A person who designs a computer system on the basis of an organization's information needs.

- T -

- **T account (T حساب على شكل حرف):** The simplest form of an account, used to analyze transactions.
- **Tangible assets (أصول ملموسة):** Long-term assets that have physical substance.
- **Tangible Assets** are those assets that have a physical existence. Examples property, plant and equipment, land, etc.
- **Temporary accounts (حسابات وقتية):** Accounts that show the accumulation or revenues and expenses over one accounting period; at the end of the accounting period, these account balances are transferred to stockholders' equity. Also called nominal accounts.
- **Term bonds (سندات ذات اجل موحد):** Bonds of a bond issue that all mature at the same time.
- **Trade credit (ائتمان تجاري):** Credit granted to customers by wholesalers or retailers.
- **Trade discount (خصم تجاري):** A deduction (usually 30 percent or more) off a list or catalogue price that is not recorded in the accounting records.
- **Trade discount (خصم تجاري):** It is an allowance against the invoice price. It will not be shown in the Books of accounts.
- **Trade Discount** (خصم تجاري): Deduction in price given by the wholesaler/manufacturer to the retailer at the list price or catalogue price.
- **Trademark (علامة تجارية):** A registered symbol or brand name that can be used only by its owner to identify a product or service.

- **Trading securities (أوراق تجارية):** Debt and equity securities bought and held principally for the purpose of being sold in the near term.
- **Treasury stock (أسهم الخزينة):** Capital stock, either common or preferred, that has been issued and reacquired by the issuing company but has not been resold or retired.
- **Trend analysis (تحليل اتجاه):** A type of horizontal analysis in which percentage changes are calculated for several successive years instead of for two years.
- **Trial balance (ميزان مراجعة):** A comparison of the total of debit and credit balances in the accounts to check that they are equal.

- U -

- **Uncollectible accounts (حسابات غير محصلة):** Accounts receivable owed by customers who cannot or will not pay. Also called bad debts.
- **Understandability (المفهومية):** The qualitative characteristic of information communicating an intended meaning.
- **Underwriter (ضامن):** An intermediary between the corporation and the investing public who facilitates an issue of stock or other securities for a fee.
- **Unearned revenues (إيرادات مستلمة مقدما)** Revenues received in advance for which the goods will not be delivered or the services performed during the current accounting period.
- **Unearned revenues (إيرادات مستلمة مقدما):** Revenues received in advance for which the goods have not yet been delivered or the services performed; a liability account.
- **Units of time depreciation:** Units of time depreciation is similar to units of production, and is used for depreciation equipment used in mine or natural resource exploration, or cases where the amount the asset is used is not linear year to year.
- **Units-of-production depreciation method:** Under the units-of-production method, useful life of the asset is expressed in terms of the total number of units expected to be produced.
- **Unsecured bonds (سندات غير مضمونة):** Bonds issued on the general credit of an organization; also called debenture bonds.
- **Usefulness (الفائدة، النفعية):** The qualitative characteristic of information being relevant and reliable.

- V W Z -

- **Valuation (التقييم):** The process of assigning a monetary value to a business transaction.
- **Vertical analysis (تحليل عمودي):** A technique for analyzing financial statements that uses percentages to show the relationships of the different parts to the total in a single statement.
- **Wages (أجور):** Payment for services of employees at an hourly rate.

- **Wide area networks (WANs) (شبكة منطقة شاملة، أو واسعة):** Networks of two or more computers in widely separated locations.
- **Work sheet (ورقة عمل):** A type of working paper used as a preliminary step in recording adjusting and closing entries and in the preparation of financial statements.
- **Working capital (رأس المال العامل)**: A measure of liquidity that shows the net current assets on hand to continue business operations; total current assets minus total current liabilities.
- **Working papers (أوراق عمل):** Documents used by accountants to organize their work and to support the information in the financial statements.
- **World Wide Web (نسيج عريض عالمي)**: The repository of vast amounts of information on the Internet.
- **Zero coupon bonds (سندات بدون فائدة):** Bonds that do not pay periodic interest but that promise to pay a fixed amount on the maturity date.

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APPENDIX

(2)

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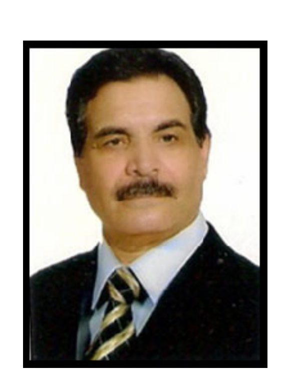
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4. التدريس في الدراسات العليا: 15 مادة دراسية
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